R4105-29.29

Research Bulletin

Corporate Social Programs:
Nontraditional Assistance

by Anne Klepper

The Conference Board

number 146

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DURING THE 1970's, interest mounted in the ways corporations met various public responsibilities, particularly in those activities that fall outside "traditional" or charitable contributions. By definition, "traditional" or charitable contributions are gifts of cash and property deducted on line 19 ("Contributions") of the U.S. Corporation Federal Income Tax Return. All other assistance programs (cash, property, loaned personnel, and so forth, not taken on line 19) are here called "nontraditional."

Historically, U.S. firms have contributed to worthy social activities since post-Civil War days; and corporations have been allowed to take charitable contributions as deductions on their federal income-tax returns since 1936.[1] The Conference Board has been gathering and maintaining data on the dimensions of such contributions since 1943. The Board's *Corporate Contributions Survey* became an annual effort in 1974, and is considered the basic statistical document in this field.

Activity in the field of nontraditional contributions accelerated during the early 1980's. It was bolstered by the formation of "Two Percent" and "Five Percent" Clubs, groups of donors pledged to donate a fixed percentage of pretax net income.[2] There were also efforts by various activist stockholder groups to increase levels of corporate giving, and the recommendations of the 1982 President's Task Force on Private Sector Initiatives called for the assumption of increased responsibility by the private sector for social programs.

Companies committed to the concept of "good corporate citizenship" were naturally in the forefront of an effort to describe, tally and establish an information base on the ways in which corporate programs—both charitable giving and other assistance—were meeting these responsibilities. But the problems of defining and quantifying the varieties of aid were formidable.

Once an observer moved beyond the categories of charitable contributions, a thicket of various definitions and terms for other kinds of assistance was encountered. What should these forms of aid be called? Terms such as "noncontributions programs," "non-charitable deduction items," "business expense assistance programs," "nontraditional assistance programs," "corporate assistance programs," and so on, were offered. In addition, the problem was compounded by the range of suggested items to be included in aid categories—a span that seemed limited only by the imaginations and predilections of the authors of such suggestions.

Previous Conference Board research had shown that many firms lacked data on other than charitable contributions. During 1974, a Conference Board attempt to develop such data for the Commission on Private Philanthropy and Public Needs (the Filer Commission) yielded very little in the way of statistical data.[3] Again, a 1980 Conference Board survey of the corporate contributions function showed that only a small number of firms—less than 10 percent—were in a position to produce such data.[4] Several companies at that time indicated that they were instituting accounting systems designed to capture such data. At the same time, however, other firms reported that they were reluctant to engage in such a data-collection effort, since it would necessitate the expansion of staff and might introduce misunderstandings about the nature and dimensions of their contributions programs.

Underlying all of these difficulties was one of measurement. Many forms of aid could not be precisely evaluated in dollars-and-cents. Moreover, the measurement process itself was clouded. This difficulty in the measurement process has been described by Daniel Yankelovich:

"The first step [in a research investigation] is to measure whatever can be easily measured. This is okay as far as it goes. The second step is to disregard that which

[1] In the Revenue Act of 1936, Congress extended to corporations the charitable income-tax deduction, which had been available to individuals since 1917.

[2] In recent years, there have been a number of 2 percent and 5 percent clubs organized around the country. Most clubs use a combination of charitable contributions and business expense items as criteria for membership. Accordingly, comparisons with Annual Survey data (which are based on IRS charitable deductions) are not possible.

[3] James F. Harris and Anne Klepper, *Corporate Philanthropic Public Service Activities*. The Conference Board, Report No. 688, 1976.

[4] Kathryn Troy, *The Corporate Contributions Function*. The Conference Board, Report No. 820, 1982.

can't be easily measured or give it an arbitrary quantitative value. This is artificial and misleading. The third step is to presume what can't be measured easily really isn't important. This is blindness. The fourth step is to say what can't be easily measured really doesn't exist. This is suicide."[5]

Refining the Measurement Process

During 1980 and 1981, the Contributions Council of The Conference Board launched a special project aimed at defining and measuring "nontraditional assistance programs." The Council's members first compiled a "laundry list" of 50 separate possibilities as a starting point (see Exhibit 1).

The Council's task forces focused attention on such criteria as the importance, definition, measurability, credibility, internal-external usage, and accounting procedures involved in nontraditional assistance. Only items having a high degree of credibility, and generally regarded as noncontroversial by a majority of contributions professionals, were finally included.

Based on the definitions developed by the task forces, a questionnaire was designed and distributed to 112 U.S. companies, known to have substantial contributions budgets, during late 1982.

The questionnaire embraced seven major categories of assistance:

(1) Cash donations to 501 (c) (3) organizations *not* claimed as charitable deductions;[6]

(2) Loans of company-paid personnel;

(3) Property donations *not* claimed as charitable deductions;

(4) Donation of facilities and/or services;

[5]From S. Prakash Sethi, "Getting a Handle on the Social Audit," *Business and Society Review*, Winter: 1972-1973, Number 4, page 37.

[6]There are some 20 categories of tax-exempt organizations in the Internal Revenue Code. Tax exempt does not mean tax deductible. Basically, only contributions to nonprofit organizations with 501 (c) (3) rulings (charitable, religious, scientific, educational, and so forth) may be taken as charitable deductions. There are a few exceptions, such as voluntary fire departments with 501 (c) (4) rulings, but this is not a consequential block. Chambers of commerce and trade associations are 501 (c) (6) nonprofit, tax-exempt organizations, but moneys paid to them are business expenses and *cannot* be taken as charitable deductions.

Exhibit 1: Range of Items Considered for Presently Unreported Nontraditional Corporate "Contributions"[1]

Cash Payments Not Deducted as Charitable Contributions

To non-501 (c) (3) not-for-profit organizations (trade associations, chambers of commerce, and so on)
1) On a selective basis only
2) Membership dues not to be included
3) Only where payments are higher than value received by the donor company

Fund for supplementary financial support to organizations, irrespective of tax classification, in which employees or retirees are active participants

Tax payments in lieu of contributions (applicable in foreign jurisdictions)
1) Tax de Apprentissage (France)[2]
2) Tax de Formation Professionnelle (France)[2]

Nontraditional investments in organizations deemed to have a socially useful purpose

In-Kind Contributions

Donations of company products or services to not-for-profit organizations
"Bargain" sale of company products or services to not-for-profits (fair market value less actual selling price)
Company-owned furniture or equipment to not-for-profit organizations
Payments to suppliers for items given to not-for-profit organizations
Public-service time on company's radio or TV stations
Public-service ads in company's commercial publications

Other Programs Involving Company Products or Services

Imputed interest cost on loaned products and equipment
"Soft," or below-market, loans
Product promotion tie-ins with not-for-profit organizations
Cost of captioning TV commercials for the deaf

Exhibit 1: Range of Items Considered for Presently Unreported Nontraditional Corporate "Contributions" (continued)

Special Education Programs

Employee tuition refund-program costs
Employee educational loan-program costs
Post-doctoral fellowships for non-U.S. academics assigned to company in the United States
Tours by non-U.S. academics of U.S. universities and company facilities
Academic sabbatical and exchange programs for selected company employees to teach or conduct research
Direct costs of educational or scientific seminars for academics, scientists and business people (undertaken for other than marketing purposes)
Direct costs of preparing, presenting and distributing nonmarketing scientific and technical papers
Direct costs of preparing nonmarketing educational publications for schools and colleges
Direct costs of making nonmarketing films for schools and community groups
Underwriting costs of academicians visiting selected colleges to advise on curriculum development and other subjects

Special Equal Opportunity Programs

Programs to increase company purchases from minority businesses
Investments in minority business enterprises
Summer-employment programs for minorities
Special in-plant programs (e.g., career counseling)
Tickets to museums, special events, and so forth

Other Special External Programs and Activities

Public-service activities (e.g., funds to help support local tax levies)
Projects with or for community groups (e.g., Special Olympics, athletic programs for the underprivileged)
Major community rehabilitation projects
Activities to attract new business to local communities
Loans to economic development organizations
Honoraria and expenses for retirees serving as volunteers to nonprofit entities
"Partnership Programs" (e.g., self-help social programs)

Cost of Employee Time Off the Job

Social service leaves of absence
Loaned employees (for extended periods)
United Way volunteers (external)
United Way activities (internal employee campaigns)
Community organizations volunteers
Public office
Volunteer firemen
Donating blood

Selected Company Costs Related to Not-for-Profit Activity

Corporate contributions and foundation component (administrative costs)
Community-services and public-affairs component (part) for social-service activities
Government-relations component (part) for public-service activities
Educational relations component
United Way employee campaign costs (all)
Attendance at professional meetings related to contributions or social-service activities

[1]As developed and evaluated by the Contributions Council of The Conference Board, a group of 55 senior contributions executives in major U.S. corporations who exchange information on contributions policies and practices.

[2]Taxes paid on salaries for apprenticeship and professional development.

(5) Loans and investments made at below-market-yield rates;

(6) Cost of administering contributions programs;

(7) Research funds to educational institutions for basic research taken as business expense.

In addition, the respondents were asked to indicate, for each of the areas above, whether the dollar values were "actual" or "estimated."

Survey Response

Of the 112 companies receiving the questionnaire, 108 had charitable contributions budgets in excess of $2 million annually. Eighty-one companies (72 percent of the firms) responded. Of these, 19 firms reported that they were unable to provide data on nontraditional assistance programs—either because such data were not available within the company or because the firm did not participate in such programs. Thus, 62 firms provided detailed information on the seven categories of assistance previously cited.

It should be noted that these 62 companies are major U.S. corporate givers. Their charitable contributions budgets total almost $450 million, or approximately one-sixth of the total given by corporations. In addition, the total value of nontraditional assistance for these firms was $136 million, or 30 percent of the amount the companies reported as charitable contributions.

Survey Findings

As might have been anticipated, many firms with large charitable contributions programs are also involved in nontraditional assistance.

Exhibit 2 shows the size of the firms reporting on their nontraditional assistance programs—ranked by the size of the charitable contributions budget. Of the 44 manufacturing firms that participated in the survey, half rank among the 50 largest corporate donors in the United States.[7] Of the eighteen nonmanufacturing firms, five rank among the fifty largest corporate donors.

Approximately one-third of the nonmanufacturing companies that responded to the survey were insurance companies. This is explained by the fact that the insurance industry has a head start on tracking nontraditional assistance activities, partly as a result of the work by the Center for Corporate Public Involvement (formerly known as the Clearinghouse on Corporate Social Responsibility).

While many firms had thus far not installed accounting procedures to track all of these nontraditional program expenditures, others have and can report the value of

[7]Kathryn Troy, *Annual Survey of Corporate Contributions, 1983 Edition*, The Conference Board, Report No. 833, 1983, page 20.

Exhibit 2: Charitable Contributions Budgets of Manufacturing and Nonmanufacturing Firms Supplying Data on Nontraditional Assistance Programs for 1981

Manufacturing Firms Ranked by Size of Charitable Contributions Budget[1]	*Nonmanufacturing Firms Ranked by Size of Charitable Contributions Budget*[1]
44,648,872	11,100,287
31,055,000	8,620,106
23,214,000	6,322,000
17,935,000	6,166,220
16,066,000	6,079,433
12,350,000	4,317,663
11,318,801	4,189,618
11,242,896	4,025,000
10,541,000	3,935,239
9,859,953	3,810,917
9,658,425	3,676,151
9,605,894	3,552,395
9,040,000	3,217,668
8,656,527	2,715,816
8,505,000	2,705,670
8,428,000	2,414,997
8,117,457	2,210,000
7,204,110	1,604,617
6,668,397	$80,663,735
6,568,437	
6,265,000	
6,030,720	
5,351,991	
5,101,238	
5,100,000	
4,963,000	
4,906,244	
4,887,395	
4,636,151	
4,342,998	
4,160,498	
3,994,775	
3,872,000	
3,844,455	
3,806,665	
3,683,967	
3,605,901	
3,604,083	
3,451,056	
3,383,597	
3,102,687	
2,978,788	
2,213,591	
956,576	
$368,927,545	Total: $449,591,340

[1]Charitable Contributions, reflecting both direct corporate giving and company foundation grants, in 1981, as reported for the Conference Board Corporate Contributions Survey.

these down to the penny. If the companies involved had chosen to keep their books differently, and had been able to claim all of these nontraditional programs as charitable contributions, their total charitable donations would have loomed larger and the percentage of contributions to pretax net income would have been significantly higher—particularly for those with expenditures of over $1 million.

Exhibit 3 shows 29 companies that supplied dollar data on four or more of the seven areas in the survey, ranked by charitable contributions as a percent of worldwide pretax net income (one loss company that supplied data is omitted). Of the 29 companies, 22 are major multinational manufacturers, the others are banks and insurance firms. This exhibit also shows nontraditional dollars, including and excluding administrative costs as percentages of worldwide pretax net income. Although the sample is small, it does make possible some comparisons between charitable contributions and nontraditional dollars as percents of PTNI.

It has often been asserted that nontraditional dollars equal or exceed charitable contributions—that they are double or triple in amount. The limited evidence available here does not bear out that assertion. In only three cases does nontraditional assistance outstrip charitable contributions; in no case are they equal. In six cases, the nontraditional assistance is 60 to 80 percent of the charitable contributions. But in most instances, nontraditional funds are *well below* the charitable ones, with a cluster around one-third of the latter total.

Table 1 shows nontraditional assistance dollars by category of giving for the 62 companies that reported such data. The area of greatest support (29 percent of the dollars) was research dollars disbursed to educational institutions for "basic" research and taken as business expense. Tax considerations account for the spurt of

Exhibit 3: Charitable Contributions and Nontraditional Assistance as Percent of Worldwide Pretax Net Income, 1981 (Loss company omitted)[1]

Survey Respondents Ranked By Charitable Contributions as a Percent of Worldwide Pretax Net Income		
Charitable Contributions as Percent of Worldwide Pretax Net Income	*Nontraditional Assistance as Percent of Worldwide Pretax Net Income*	*Nontraditional Assistance (excluding Administrative Costs) as Percent of Worldwide Pretax Net Income*
.27	.40	.38
.34	.02	.01
.34	.03	.02
.46	.07	.05
.47	.07	.03
.47	.18	.15
.48	.19	.14
.48	.21	.17
.49	.18	.17
.52	.15	.13
.52	.41	.40
.61	.13	.09
.71	.26	.10
.82	.88	.84
.86	.18	.08
.87	.58	.51
.87	.19	.05
.99	.85	.64
1.06	.69	.65
1.27	.14	.10
1.36	.13	.09
1.47	.88	.83
1.58	.19	.16
1.75	.26	.17
1.86	2.03	1.94
2.08	.57	.45
2.10	.20	.08
4.06	.24	.04
9.35	7.26	6.77

[1]For 29 Companies supplying data on four or more nontraditional assistance items.

Table 1: Nontraditional Assistance by Category of Assistance for Calendar Year 1981 (62 companies)

Category of Assistance	*Dollar Value of Assistance*	*Percent*
Grants for basic research	$39,554,964	29
Loan of company-paid employees	27,617,655	20
Costs of administering the contributions function	25,600,656	19
Grants to 501 (c) (3) organizations not reported as charitable deductions	18,451,972	14
Below-market rate loans/investments	16,159,297	12
Donation of products and property not reported as charitable	6,053,400	4
Provision of services and facilities	2,619,545	2
	$136,057,489	100%

dollars in this category. "Loaned personnel" was second, not the dominant category that some may have expected because of public attention focused on this area.

Surprisingly, only 2 percent went to providing facilities and services. Companies may not have accounting procedures to track such dollars, or may feel they are too small to warrant the work involved.

Cash Donations to 501 (c) (3)s Not Claimed as Charitable Deductions

As noted, U.S. firms report charitable contributions (cash and property) on line 19 of the U.S. Corporation Income Tax return. Under the Economic Recovery Tax Act of 1981, the maximum deduction for such contributions was doubled from 5 percent (which had been set in 1936) to 10 percent of a firm's taxable income. The exact valuation of donated property is governed by the Internal Revenue Code and regulations.

Some items may be taken as charitable contributions *or* as business expenses—in either event they are 100 percent deductible. The choice of category hinges on advice the firms receive from their tax and accounting counsel. Substantial confusion prevails because companies differ significantly in their practices.

One of the major problem areas involves funds given to public TV and/or radio: Company A may underwrite a public TV program and choose to pay for it out of its charitable contributions budget. At the same time, Company B may decide to underwrite an almost identical program—but take the moneys out of its advertising or promotion budgets and claim it as a business expense.

In other instances, special events (benefits, awards dinners, etc.) provide examples of disparate company practice. One firm may keep detailed records and claim an appropriate portion of the event's expense as a charitable contribution. Another may choose to write off the entire expense as a business cost.

Thirty-two of the firms responding provided dollar amounts on the payments they made to 501 (c) (3) organizations that were *not* claimed as charitable contributions (about half of these were estimates rather than actual figures). The amounts claimed ranged from $10,000 to $4.3 million, with a median of $206,000.

Six of the companies reported nontraditional assistance programs in excess of $1 million in this category. The 32 companies reporting on nontraditional expenditures to 501 (c) (3)'s contributed more than $18 million in all.

Loans of Company Personnel

For a number of years, companies have been "loaning" personnel to a variety of nonprofit and government agencies. These personnel, whose salary and benefits costs are paid by the company, provide specialized management and technical assistance to the organizations to which they are "loaned."

For the purposes of this study, it was specified that such loans must be entirely voluntary (not mandated, as in the case of jury duty) and that firms should not include the value of employees' time spent serving as volunteers on personal outside activities (school boards, fund drives, and so forth). The question of the value of loaned personnel, and its importance to the voluntary sector, is one of increased interest to both business and the media. But not much attention has been directed to precise definitions, uniform criteria, or the development of reliable economic data. Such data are not easy to develop.

Only 29 of the companies responding were able to provide dollar values on the worth of loaned personnel time. And more than half of these values were estimates.

The total value of loaned personnel by the companies responding was more than $27 million—the second largest area of support found in the survey; the median was $200,000. Four of the respondents, well-known in the field of contributions for their loaned personnel programs, reported costs for this purpose in excess of $1 million each.

Company practices on accounting for such personnel costs vary widely. Some firms establish a minimum threshold of hours, days or weeks before they classify employees as "loaned" and begin to track salaries, benefits and other costs. Seventeen of the twenty-nine firms that responded on this practice had such minimum time requirements. They range from as little as five days to as much as six months. The most common time period was two to four weeks.

About half of the companies required that the loaned employee be working off his or her regular job site; the remaining half did not distinguish between the places of employment. Approximately half of the 62 companies responding say that they do not have such programs, or that they do not now track the costs of loaned personnel.

Property Donations *Not* Claimed As Charitable Deductions

Under the Internal Revenue Code, corporations are permitted to take charitable deductions for donations of products, equipment and other property (real estate, securities, and so forth). This is common corporate-accounting practice. For some firms in the food, pharmaceutical and computer industries, a major portion of contributions programs consists of donations of product inventories. In these firms, the value of such donations may account for as much as 85 percent of charitable contributions.

The Internal Revenue Code (in particular, the Tax Reform Acts of 1969 and 1976) sets forth in detail the methods by which such donations should be valued. As a general principle, product is valued at manufacturer's cost. Exceptions are giving products for use of the ill, needy and infants, and for certain educational products. In those cases, up to twice manufacturing costs may be deducted. Donations of equipment and other property may be taken at fair market value. The Code contains numerous technical provisions and exceptions that are applicable to appreciated property and capital gains.

The survey was designed to pinpoint those donations of property that had *not* already been taken as charitable deductions. Thirty firms indicated that they had made such donations, but only 21 were able to document the dollar value of their contributions. The total value of those reporting dollar amounts was $6 million; the median was approximately $100,000.

Donation of Facilities and/or Services

Previous Conference Board research has established that companies have long made a variety of facilities and services available to nonprofit organizations, either at no cost or at below-cost rates of reimbursement. But firms often make no attempt to track the value of these donations (space, computer time, printing, and so forth). Terminology in this area is also imprecise. Sometimes such services are referred to as "in-kind gifts." At other times, the gifts of product and equipment are lumped with the use of facilities and services. Muddling the issue further, some firms include loaned personnel with all of the above items in an "in-kind" category of assistance. In an attempt to avoid such confusions, the term "in-kind" was not used in the survey. Individual types of assistance were described instead.

Twenty-eight of the responding companies were able to place a dollar value, totaling $2.6 million, on the donation of space and services to nonprofit entities. Eight of the firms said that the value of such services ran to $200,000 or more; the median value for all firms was approximately $50,000.

Loans and Investments at Below Market-Yield Rates

Some firms—primarily financial institutions—have made loans or investments for "social purposes" at rates of return below what the firms would have realized in regular business transactions. This reduction in interest income may be considered as a "donation." Typical of such loans are those that are obtained by minority businesses, home mortgages in blighted or disadvantaged urban areas, and the like. Thirteen of the companies studied had developed data on the value of such reductions in interest income. For several of the banks and insurers involved this amounted to a substantial figure, with one firm estimating that its foregone interest added up to more than $8.9 million in 1981. For the relatively few manufacturing firms that engage in such activities, the dollar values were lower, averaging approximately $150,000. The majority of the companies surveyed did not engage in this kind of nontraditional assistance.

Cost of Administering Contributions Programs

Most firms, as a matter of good business practice and because of existing internal controls, are well aware of the basic costs attributable to the administration of the contributions function. Basic components include staff salaries and wages; personnel benefits; travel and meeting expenses; office space costs; telephone, telegraph and postage costs; consultants' fees; accounting costs; and legal and auditing service fees.

In the case of those companies that assign personnel on a full-time basis to manage a contributions function, the costs of staff are easily ascertained. But even among those firms that assign people on a part-time basis, it is possible to estimate the percentage of staff time applied to administering the contributions function. Since nearly all of the companies surveyed had substantial contributions budgets, it was expected that all had at least one person engaged full-time in this function.

Respondents' Comments

As noted previously, 19 of the 81 firms responding to this survey were unable to provide precise dollar data but many of these did indicate that they were moving to obtain such data during 1983. Typical of the comments made by this group are:

•"Our program of reported contributions is all cash. While we have worked hard within our decentralized organization to coordinate operations and reporting in the area of cash contributions, we have no mechanism in place to track any of the categories of service in this Conference Board survey. We are, in fact, somewhat ambivalent at beginning to record it. As soon as one starts to quantify those categories, there is a temptation to control the activities."

—Manager, Foundation, a major retailing firm.

•"Because of our unique corporate strategy of addressing major unmet social needs as profitable business opportunities, we do not undertake a program of widespread cash giving. . .consequently our tracking and accounting of our investments is not transferrable to your questionnaire."

—Director, Public Affairs, a major manufacturing firm

•"While we do provide in-kind contributions of equipment to qualified nonprofit organizations, we do account for such grants in the *Annual Survey of Corporate Contributions*. Other forms of nontraditional assistance, such as the use of our facilities and equipment, along with the loan of our personnel, does take place. However, we have not yet structured our program to realistically account for such services."

—Corporate Contributions Administrator, an equipment manufacturer.

•"In the midst of a significantly expanding granting program here, which has nearly tripled in two years, we have found it impossible to mount the truly *major* effort that would be required to quantify, even approximately, the information you seek. Our people are so widely involved in volunteer activities, none of which are charged to philanthropy, that an initial survey to establish this information would require setting up a project which would have to range over hundreds of physical sites. Citizenship is an expected way of life at our company and manifestations of this corporate objective are legion."

—Executive Director, Foundation, a machinery manufacturer.

•"We are designing a questionnaire which, we hope, will bring to light our involvement in social, educational and other nonprofit groups not made through corporate contributions. We are working with the accounting department and hopefully will have this information available soon."

—Manager, Corporate Contributions, a food company.

It is obvious that it takes time, effort and expense to track nontraditional assistance efforts. Nonetheless, several companies not already doing so are moving in this direction in order to obtain a more comprehensive analysis of their total social involvement—and the costs thereof. One firm notes that "depending on the total figure, we will either redesign our expense codes to capture such figures automatically, or continue to do it annually by the slow questionnaire method."

Of the 62 firms that were able to provide dollar information in the survey, 52 had administrative cost data. In total, the companies studied spent $25.6 million to administer their contributions programs. At the low end of the spectrum, one firm spent $10,000; at the opposite end, a company spent $3.6 million in administrative costs. The median for all firms was approximately $200,000. For about half of the companies, the dollar amounts reported were characterized as actual figures rather than estimates.

Twenty of the firms had company foundations and were able to separate the costs for running the foundation's program from the costs for administering the direct corporate giving program. There was no discernible pattern in an analysis of these costs. For example, in a handful of cases all the costs for contributions administration were charged to the firm's foundation. But in most cases the costs were divided. In some instances, the cost of administering the foundation program exceeded the cost of running the direct corporate program; in other instances, the opposite was true. These variations reflect the nature of the company's contributions program, and are heavily influenced by whether the company is involved in a foundation or direct-giving program as the dominant mechanism used to make grants.

An analysis of the administrative costs, as a percentage of the company's contributions budget, showed a range from 0.12 percent to 32 percent. The median was 5.0 percent, generally in conformance with Conference Board estimates based on earlier contributions surveys.

Research Funds to Educational Institutions for Basic Research

Prior to the Economic Recovery Tax Act of 1981, most grants given to colleges and universities to fund basic research—research not having a specific commercial

objective—were generally taken as charitable contributions. The 1981 Tax Act made it possible to take such "basic research" donations as a business expense without having to show a commercial objective. The Act also provided for a special tax credit for such expenditures. The dollars contributed are usually included in the R&D and technology budgets of the company and the amounts involved can be substantial. The grants, taken in addition to those grants made to institutions of higher education as straight charitable contributions, can be added together to augment a company's "contributions to education" activity.

As it turned out, this category was the most important area of support found in the survey. A majority of the manufacturing companies in the study (26 out of 44) made such basic-research expenditures as business-expense grants. As might be expected, petroleum, chemical and pharmaceutical firms made significant grants in this sector. Nearly $40 million in business expense was reported by 26 companies, constituting 29 percent of all the nontraditional assistance dollars reported. The grants range in size from $25,000 to nearly $12 million, with a median value of $640,000.

Summary

This brief study was a preliminary attempt to ascertain what data were available in the nontraditional corporate assistance areas. The collection of precise data on the dimensions of such assistance is still in an early stage, even among the most sophisticated corporations with substantial involvement in such programs. However, interest in this area is growing rapidly and serious attempts are being made to capture such data and present them in credible form.

The most perceptive practitioners in the area (and their managements) are aware that there are temptations to exaggerate the value of such programs and are making meaningful attempts to eliminate such possibilities. Developing precise data on nontraditional assistance requires time, effort and expense, and is not always easy to justify in a recessionary period. Nonetheless, there is evidence that companies are firmly on such a tracking course.

As a result of this feasibility study, it was decided to expand the Board's 1982 *Annual Survey of Corporate Contributions* to include data on both charitable contributions and nontraditional assistance.

R4105 - 29.35A

Research Bulletin

Repurchasing Common Stock

by Francis A. Lees

The Conference Board

number 147

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Overview

It seems paradoxical for strong, growing corporations to enter the stock market to buy back their own common shares. Nevertheless, there can be sound business reasons for doing so. Many companies, and there are substantial numbers of them, have continuing needs for a supply of shares for various corporate programs. And they may not wish to satisfy these demands by distributing new, previously unissued shares. In such cases, the alternative is to buy back shares in the open market.

When the market prices of their shares become depressed, as a large number were for many months prior to August, 1982, the managements of some corporations see favorable profit opportunities because they are confident that their companies' share prices will eventually recover. These, and other reasons to be discussed later, influence companies to repurchase their own shares.

The purpose of this study is to examine the phenomenon of corporate stock repurchasing and to seek answers to such questions as:

—What do company managements hope to accomplish by repurchasing their stock? To what extent have their expectations been realized? And do they intend to continue?

—To what extent have the reduced numbers of shares outstanding increased earnings per share and enhanced the market value of remaining outstanding shares? In other words, can enough shares be reacquired by a large corporation to make any difference in these measurements of corporate financial health?

—What policy guidelines and procedures have companies installed to administer their stock repurchasing programs? Which executives are responsible for conducting these programs?

In earlier studies of corporate stock-repurchasing practices, attention has typically been centered exclusively on programs for corporations to go directly into the markets and repurchase shares that are accounted for simply as treasury stock in the companies' financial statements. However, another aspect of repurchasing is worthy of attention. Numerous corporations operate employee-benefit programs such as stock-purchase plans and profit-sharing trusts. These and similar activities require the investment of the programs' assets in shares of the sponsoring company. In some cases, the effects on the company of such indirect repurchasing activities can be similar to those of the more commonly recognized direct stock repurchasing programs.

Subsequent sections of this report examine company experience with both direct and indirect repurchasing of common stock.

Background of this Report

In the early 1970's, the practice of corporations buying back substantial quantities of their own common stock surged to a previously unheard of peak of activity. Responding to requests from its Associates for information concerning this development, The Conference Board issued a report in 1975.[1] Although the number of large corporations repurchasing their own shares has declined somewhat in the past ten years, the total volume of shares reacquired has grown substantially. In brief, common stock repurchasing has remained a significant feature in the conduct of many large corporations' financial affairs.

As part of its continuing study of corporate financial management practices, the Board has reexamined the phenomenon of common stock repurchasing. This report updates a major portion of the findings reported in 1975. In addition, it examines a facet of stock repurchasing that was not considered in the earlier study: indirect repurchasing by various employee benefit programs, such as employee stock-ownership plans, profit-sharing trusts, and the like.

[1]Francis J. Walsh, Jr., *Repurchasing Common Stock*. The Conference Board, Report No. 659, 1975.

Extent of Repurchasing Activity

In recent years, corporations whose common shares are listed on the New York Stock Exchange (NYSE) have been repurchasing in excess of 100 million shares annually, as shown in Table 1. In the first ten months of 1982, according to NYSE data, 107 listed companies repurchased 100,000 shares or more; and 25 of these bought back 1 million or more shares. The total number of shares acquired by 297 companies in the first 10 months of 1982 was 218.9 million, and this was a substantial increase over the 148.4 million shares reported by 312 firms for the full year of 1981, and 101.3 million by 305 corporations in 1980. The sharp increase in 1982 volume undoubtedly reflected the generally depressed condition of stock market prices prior to the recovery that began in August, 1982, and it demonstrates the determination of many repurchasing companies to exploit favorable buying opportunities.

The 1975 Conference Board study of common stock repurchasing reported that there was a great increase in this activity in the period from 1969 through 1973; the latter year witnessed the reacquisition of 143.8 million shares by 522 companies.[1] Since 1980, the volume of repurchased shares has increased substantially. The number of firms engaging in repurchasing, however, has remained basically stable.

Most companies that engage in repurchasing do so to acquire shares for disposition within a fairly short time

[1]Francis J. Walsh, Jr., *Repurchasing Common Stock*. The Conference Board, Report No. 659, 1975.

Table 1: Summary Data on Stock Repurchases

	1973	1980	1981	1982[a]
Companies reporting purchases	522	305	312	297
Companies purchasing 100,000 shares or more	219	134	113	107
Number of firms purchasing 1 million shares or more	32	20	32	25
Shares acquired (millions)	143.8	101.3	148.4	218.9
Largest purchaser (millions)	13.1 (Gulf Oil)	12.5 (Standard Oil Indiana)	26.4 (Exxon)	14.1 (Brunswick)

[a]Data cover only first 10 months of 1982.

Source: *Fact Sheets*, New York Stock Exchange, January, 1980; October, 1982. Also Francis J. Walsh, Jr., *Repurchasing Common Stock*. The Conference Board, Report No. 659, 1975.

period (e.g., for distribution to employee stock-purchase-plan participants or to acquire other corporations). Nevertheless, during the period of time that the corporation holds the repurchased shares, it must account for them as treasury stock.[2] Some firms may hold a substantial portion of their capital stock in the treasury for a time, as shown in Table 2.

How This Study Was Conducted

Some aspects of corporate securities repurchasing were specifically excluded from this study. For example:

- From time to time, a company's management decides to "go private," and offers to repurchase all of the shares held by the general public. After the repurchase, the remaining outstanding shares are held by only a few individuals and are no longer actively traded. Some companies that issued common stock to the public during the long bull market that ended in the late 1960's later offered to repurchase these shares when the market prices of their securities declined sharply. This practice elicited strong criticism from the Securities and Exchange Commission (SEC). Such companies were not included in this study. The aim here is to examine the practices of larger corporations that continue to be publicly owned and that repurchase shares for reasons other than going private.
- The practices of companies that repurchase debt instruments or preferred stock are also specifically excluded.

Questionnaires

In order to obtain information about common stock repurchasing, two questionnaires were addressed to the chief financial executives of a group of major corporations.

The first questionnaire was directed to 113 corporations whose capital stocks are listed on the New York Stock Exchange (NYSE) and that repurchased 100,000 shares or more during 1981, as shown by NYSE tabulations of repurchasing activity. A total of 72 of these firms (64 percent of those invited to participate) provided usable data. Some of these respondents were also interviewed (in person or by telephone) to obtain additional information.

The second survey was addressed to a group of companies that did not engage in direct repurchasing of treasury stock. Rather, their common shares were purchased as investments of the funds of various employee benefit plans, such as employee stock-ownership programs and profit-sharing trusts. Such indirect purchases, although not counted as treasury stock by the corporations sponsoring the benefit programs, nevertheless bring substantial quantities of shares under the effective control of the companies.

New York Stock Exchange listed corporations also were selected for this second questionnaire. However, companies that were known to be direct purchasers of their own shares (as indicated by the NYSE repurchasing tabulations) were excluded from consideration. From the remaining NYSE listed corporations, a group of 200 randomly selected firms was surveyed. Sixty-two com-

Table 2: Shares of Capital Stock Held as Treasury Shares, 1981

Percent Held by Company	Number of Companies
40.1%-and more	4
35.1-40.0	4
30.1-35.0	3
25.1-30.0	9
20.1-25.0	7
15.1-20.0	16
10.1-15.0	24
Under 10.0	321
Total	388

Source: *Fact Sheets*, New York Stock Exchange, January, 1980; October, 1982.

[2]The accounting treatment of treasury stock was described in Walsh, Chapter 4.

panies (31 percent) supplied information in response to this second inquiry. In all, 134 corporations took part in this study.

The Climate for Repurchasing

General business conditions, and more specifically the state of the stock market, are claimed to influence the timing and amounts of common stock repurchases. For example, more than one-fourth of the participants report that they try to purchase shares aggressively when market prices are low or are considered to be undervalued. Other firms are guided more by their current needs for shares, and they repurchase as needed to meet the demand. And another sizable group repurchases on a steady, continuing basis regardless of external conditions.

Internal conditions also influence the climate for repurchasing. Availability of cash, for example, and the lack of presently attractive alternative uses of funds prompt some companies to buy back some of their outstanding shares.

The following tabulation summarizes the circumstances that influence direct common-stock repurchasing activity in the 69 companies that supplied such information:

	Percent of Responses
Purchase stock aggressively when stock market prices depressed	28%
Purchase stock on an ad hoc basis, depending on current needs	23
Purchase stock on regular, year-to-year basis, irrespective of stock market conditions	22
Purchase stock aggressively when cash flows are large, and there is no higher priority use of funds	16
Purchase stock aggressively when business conditions are weak and investment projects can be deferred	2
Other[1]	10
	100%[a]

[1]Includes: purchase of stock based on favorable long-term trends; purchases timed to minimize average cost per share; exchange of shares on exercise of options; repurchase of stock from resigning employees; special situations only; and when large blocks become available.

[a]Details do not add to 100 percent because of rounding.

According to executives who took part in this study, tax and regulatory legislation in recent years have influenced the volume of indirect repurchasing of company stock by benefit programs. The Employee Retirement Income Security Act (ERISA) of 1974 and various tax bills enacted by Congress have served to encourage establishment of benefit programs that invest varying proportions of their assets in sponsoring companies' shares. The Profit Sharing Research Foundation (Evanston, Illinois) reports that more than 723,000 benefit plans of this type were approved between 1975 (when ERISA went into effect) and 1981.

Profile of Companies Studied

Three out of four of the seventy-two NYSE-listed corporations that supplied usable information on their direct stock-repurchasing programs are primarily in the manufacturing sector of the economy. Durable goods manufacturers make up the largest single segment, with 41 percent of all of the survey participants. Nondurable goods manufacturers represent 35 percent of the total; nonmanufacturing enterprises account for the remainder.

Large corporations tend to predominate among the companies that engage in direct stock repurchasing. Sixty-four percent of the survey participants have sales volumes in excess of $1 billion. At the opposite end of the spectrum, only 5 percent of the respondents have annual sales of less than $100 million.

Manufacturing companies also make up the bulk of the 62 respondents supplying information about indirect repurchasing of capital stock through their benefit programs. Seventy-two percent of these companies are in the manufacturing sector (37 percent durable goods and 35 percent nondurable goods). The remaining 28 percent are nonmanufacturers.

There is a somewhat broader distribution as to company size among this second group of cooperators than there is among the direct repurchasers described above. Forty-eight percent reported annual sales volumes of $1 billion or more. But, medium-sized firms are more widely represented, with 18 percent of the companies in the $500 million to $1 billion bracket and 31 percent in the $100 million to $500 million category. Again, smaller corporations are very much in the minority, with only 3 percent reporting sales of less than $100 million.

Direct Repurchasing of Common Stock by Corporations

The most important common stock repurchasing activity is carried on directly by company managements in pursuit of specific corporate objectives. This aspect of repurchasing, described in this section, is based primarily on information supplied by 72 corporations that are listed on the New York Stock Exchange and that were substantial direct repurchasers of their own shares during the five-year period beginning in 1978 and ending in 1982.

These 72 corporations are not merely casual or occasional repurchasers. Close to eight out of ten acquired treasury shares in each of the five years (1978-1982). As the following tabulation shows, two out of three increased their holdings during the period:

Holdings of Treasury Shares (1978-1982)	*Number of Companies*
Large increase	20
Small increase	28
Little or no change	8
Decrease	13
No shares held at end of period	3
Total	72

The 20 companies reporting large increases typically added one million or more treasury shares. One firm added 13 million shares to its holdings, while two others reported increases of 6.5 million shares and 4 million shares, respectively.

Objectives

Although more than a dozen objectives of common-stock repurchasing are mentioned by the participating companies, (see Table 3), four stand out for both frequency of mention and relative importance (when ranked):

—Obtaining shares for employee compensation programs;
—Exploiting investment opportunities presented by depressed stock prices;
—Improving earnings per share;
—Obtaining shares for acquisition programs.

Incentive Compensation, Stock Options, and Stock-Purchase Plans: The most frequently chosen "important" motive for reacquiring common stock is obtaining shares for reissue to executives and employees under various compensation, stock-option, and stock-purchase plans.[3] Sixty-four firms cited this as an objective of their repurchasing programs. And, as indicated in Table 3, 38 firms ranked it first in importance.

Exploiting Investment Opportunities: When the market price of a company's capital stock appears to be temporarily depressed, there is a strong incentive for

[3]For recent experience with stock option plans, see Harland Fox, *Incentive Stock Option Plans.* The Conference Board, Research Bulletin No. 148, 1983.

Table 3: Principal Objectives of Direct Common Stock Repurchasing Programs, Ranked by 72 Companies

	Rank								
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*Total Mentions*[1]
	Number of Times Listed								
Obtaining shares for employee compensation programs	38	9	8	4	3	2			64
Exploiting the investment opportunity	17	10	5	4	3	1			40
Improving earnings per share	2	7	10	2	3	1	1		26
Obtaining shares for acquisitions	2	6	8	6	1		2		25
General corporate purposes (unspecified)	3	9	6	1	3	1			23
Obtaining shares for conversion		12	1	1	1			1	16
Preventing dilution	3	4	5	2		1	1		16
Supporting market price	2	4	3		1	1			11
Increasing book value		1	3	5	2				11
Changing ratio of debt to equity	1	2	1	1	2		1		8
Temporary investment of cash		1	1	4	1	1			8
Preventing unwanted takeover	3	1	2	1					7
Reducing cost of servicing small stockholder	1		3	1					5

[1]Multiple responses.

management to buy some of these shares for the company treasury. Executives who are confident that the price of their company's stock will rebound believe such purchases to be one of their best investment opportunities. Frequently, the firm may have other purposes in mind for acquiring shares (e.g., the compensation plans mentioned above); but they try to time their repurchases to take advantage of bargain prices in the market. Seventeen respondents rated this objective as most important.

Improving Earnings per Share: Earnings per share of common stock (EPS) is a financial indicator of company performance that is closely watched by shareholders and by the investment community in general. It is computed simply by dividing a company's net income for a period of time by the average number of shares outstanding during that period.[4] Shares held in the company treasury do not count as "outstanding"; therefore, a company can automatically improve its reported EPS by buying up its own common shares.

Twenty-six companies mentioned this as an objective of their repurchasing programs. However, only two rated it as their most important objective.

Acquisition Programs: Corporations that acquire other companies frequently do so by issuing shares of stock in exchange for the outstanding shares of the acquired company. Obtaining shares of their own stock for the purpose of making such deals is a frequently cited objective of stock repurchasing programs. Twenty-five participating companies reported this as an objective, but only two gave it first rank.

Conversions: Issuance of convertible securities (such as debentures and preferred stock) can be somewhat troublesome for the issuing corporation because it dilutes the equity position of the present stockholders. Such dilution occurs when the corporation must issue new shares of common stock to meet the demands of security holders who wish to exercise their conversion privileges.

One way to get around this problem is to repurchase shares of common stock that are already outstanding and hold them in the treasury until the convertible securities are turned in. Sixteen companies report this practice as an objective of their repurchasing programs but none ranked it first in importance.

Preventing Dilution: Closely related to the two previous aims is the objective of preventing dilution of the present stockholders' equity interest in the company. By repurchasing some of the common shares that may have been issued recently for a variety of purposes, some managements strive to preserve the ownership interest of important groups of stockholders. Twelve of the sixteen companies reporting this objective rank it first, second or third in importance. (The questionnaire listed 17 possibilities.)

Supporting Market Price: It has long been held that a basic reason for repurchasing stock is to prevent the market prices of company shares from sliding to a level that is lower, perhaps, than the book value of the company. There is some doubt, however, as to the ability of big companies, with large amounts of stock outstanding, to buy back enough of their own shares to make much difference in the market price. Futhermore, some executives believe that it would be illegal to engage in this practice, even if it were possible to influence market prices. Nevertheless, eleven companies cited market price support as an objective of repurchasing, and nine of them ranked it first, second or third.

Increasing Book Value: Some security analysts are interested in a corporation's book value: the stockholders' equity total, as it appears on the balance sheet, divided by the number of shares outstanding. If a company buys back some of its shares, it may be able to increase the book value.

To achieve this goal fully, however, the repurchased shares must be retired. Otherwise, these shares are simply reported as treasury stock on the balance sheet and the amount invested therein is deducted from the stockholders' equity total. Thus, the numerator of the fraction is reduced concurrently with the number of shares reported as outstanding, and there may be little or no net effect on the resulting book value per share. Although 11 companies reported this as an objective, most of them did not give it a very high rank.

Changing Ratio of Debt to Equity: The relationship between a company's total debt and its total stockholders' equity is an important indicator of a firm's basic financing policy. Generally, a company with a lot of debt compared with the owners' equity is considered to be somewhat risky. On the other hand, a low proportion of debt may be regarded as too conservative in the sense that the stockholders are denied the advantage of leverage.

To some extent, a firm that wishes to do so can increase its ratio of debt to equity by repurchasing some of its common stock. Eight participating companies reported this as an objective of their repurchasing programs and half of them ranked it first, second or third in importance.

Temporary Investment: Companies with temporary cash surpluses sometimes invest some of this cash in their own common stock. Eight companies that responded to the survey report that temporary investment of surplus cash is an objective of their repurchasing programs. None of them gave it a very high ranking, however.

Preventing Unwanted Takeovers: Managements that

[4]This computation may become complicated when a company issues other classes or types of securities that are potentially convertible into shares of common stock. However, such complexities do not affect the rationale for repurchasing stock for the purpose of improving EPS.

believe their firms are actual or potential targets for acquisition by other corporations may engage in stock repurchasing as a defensive measure. By removing some shares from the market, they increase the proportion of stock controlled by the present management. Seven companies reported this as an objective of repurchasing programs, and six of them ranked it among the top three in importance. Thus, when it is an objective, it is an important one.

Reducing Cost of Servicing Small Stockholders: When company stock is held by large numbers of small shareholders, financial executives may feel that the cost of servicing small shareholder accounts is a financial burden. Therefore, they may encourage the practice of buying back shares from small shareholders. Five companies participating in the study reported this as an objective, although only one of them ranked it as first in importance.

Other Objectives: Other objectives of common stock repurchasing, reported by only two or three companies each, are:

- Acquiring shares to contribute to the pension fund;
- Retirement of shares; and
- Partial liquidation of the business because of reduced need for capital.

Results of Repurchasing

Were these companies generally successful or unsucessful in achieving their aims? What problems or pitfalls did they encounter?

Degree of Success Achieved

Stock repurchasing generally has been successful for most of the respondents. A high or moderate degree of success was reported by companies for the majority of objectives. A high degree of success generally was achieved for ten of them:

Objective	*Percent of Respondents Reporting a High Degree of Success*
Stock options, incentive compensation, and stock-purchase plans	89%
Conversion of other securities	88
Preventing dilution of equity	71
Acquisition programs	68
Exploitation of bargain prices	60
General corporate purposes	48
Improving earnings per share	46
Increasing book value per share	46
Reducing cost of servicing small stockholders	40
Preventing unwanted takeover attempts	33

In addition, the respondents reported a moderate degree of success with these objectives:

Objective	*Percent of Respondents Reporting Moderate Success*
Increasing ratio of debt to equity	75%
Temporary investment of surplus cash	75
Supporting the market price	73
Preventing unwanted takeover attempts	67
Reducing cost of servicing small stockholders	60
Increasing book value per share	54
Improving earnings per share	54
General corporate purposes	52
Exploiting bargain prices	38

To sum up, the most frequently mentioned objectives of stock repurchasing, and those considered most important by companies taking part in this study, are generally judged highly or moderately successful when overall results are weighed.

Problems and Pitfalls

Despite the generally favorable results, stock repurchasing programs are not unmixed blessings. There are disappointments and problems as well.

For example, efforts to exploit bargain prices in the market produced lackluster results for some companies because of the prolonged period of stock market weakness in 1981 and 1982. When the prices of the shares failed to rise within a reasonable time frame, the shares did not seem to be such a bargain after all.

Attempts to support the market prices of company shares similarly proved to be rather unsuccessful. When asked if they could identify any changes in the market prices of their shares as a direct consequence of stock repurchasing, 58 participants (81 percent of the total) reported no discernible change. Seventeen percent noted a slight increase; and only one respondent perceived a significant increase.

Then, too, some executives do not really believe that repurchasing the company's own shares is a wise use of corporate cash. They feel that such investments divert resources that might better be used in the companies' principal operations. Also, executives who have conservative attitudes toward capital structures do not consider it wise to reduce the shareholders' equity, as repurchasing does.

Legal problems are occasionally also cited. For example, one company reported a stockholder suit that arose from stock repurchasing. Another mentioned compliance with SEC rules as a difficulty.

SEC rules cover two broad areas insofar as stock repurchasing is concerned. The first area has to do with disclosures concerning the effects on earnings and capitalization. The following disclosures are required:

(1) Effect of repurchasing on earnings per share.
(2) Effect of repurchasing on the trend in earnings.
(3) Effect of repurchasing on company capitalization, specifically the effect on the debt-to-equity ratio.

The second area of SEC rule making is designed to prevent maneuvers that could influence the price of a company's stock. New rules concerning market transactions were first proposed in 1981; revisions were announced on November 17, 1982, under SEC Rule 10b-18. In effect, Rule 10b-18 provides a safe harbor from liability for manipulation in connection with purchases by an issuer of its own common stock. The SEC, in this Rule, intends to limit the volume, timing, pricing and method of stock repurchases so that an issuer would be required to follow the market, rather than to lead it. In general, the Rule:

(1) Limits a company to placing an order with only one dealer-broker on any given day. This prevents creating the illusion of widespread demand.
(2) Prohibits buying stock prior to an independent purchase, and also prohibits such buying within 30 minutes of the close of the market. This avoids influencing the opening and closing prices.
(3) Limits bidding for stock by the company to the highest independent bid. This prevents the bidding company from leading the market.
(4) Restricts volume on any day to 25 percent of the average daily trading volume of the previous four weeks. This prevents market domination by the repurchasing company.

Repurchasing Plans

Evidence of general satisfaction with their direct stock repurchasing programs can be seen from the responses of participants with respect to their plans to continue repurchasing. Forty-six companies, or 64 percent of the total, declare their intention to continue. Only 12 firms (17 percent) say they do not plan any more repurchasing. The remaining 14 respondents are undecided at this point.

The principal reason why the majority plans to continue repurchasing is the need for a steady supply of shares to meet the demands of compensation, stock-option and stock-purchase plans—the most important objective of most repurchasing programs. Another compelling reason for some firms to continue repurchasing is that they consider their shares still undervalued in the stock market. And other companies expect a continuing need to obtain shares for acquisitions, or to respond to other special situations.

Sixteen percent of the respondents' companies do not intend to carry out any further repurchasing in the near future. The reasons given for this decision are:

—Availability of preferable investment alternatives;
—Restrictions in loan agreements;
—Use of internal cash flow to achieve objectives;
—Balance sheet at desired position regarding debt-to-equity relationship.

Some 20 percent of the participating companies are undecided about whether they will continue repurchasing their own common stock. A large manufacturer of durable equipment notes: "Repurchase will depend on future availability of funds for this type of investment, as well as market price, book value, loan covenants, and other external factors." A large firm in the forest products industry indicated that stock repurchase "depends upon price of stock, financial outlook, and other investment opportunities." In general, the companies indicating they are undecided have been satisfied with past repurchases, and have evaluated their repurchase programs as "highly" or "moderately" successful.

Administration of Direct Repurchasing Programs

The group of companies participating in this study includes some that have been repurchasing shares for many years. In such cases, they have developed well-established and carefully detailed administrative procedures for purchasing stock. Other companies have only recently introduced stock repurchase programs, or only occasionally engage in stock repurchasing. The companies that supplied information for this study belong mainly in the first group.

The administrative matters on which the surveyed companies were asked to furnish information are:

—Timing of purchases (continuous or irregular);
—Methods of obtaining shares;
—Assignment of responsibility for programs; and
—Use of written guidelines for repurchasing.

Timing

Slightly more than two out of three of the responding companies repurchase their shares only at irregular intervals. The remainder have continuous, or ongoing, programs.

The majority repurchasing on an irregular, ad hoc basis tend to buy larger quantities of shares at a time, and then to hold them in the company treasury for disposal as needed. Although a company might need a supply of shares on a fairly continuous basis, the financial managers may prefer to time their repurchasing activities so as to exploit favorable buying opportunities.

Companies with continuous repurchasing programs usually have an ongoing and predictable need for a supply of shares and, therefore, they have standing arrangements to buy on a daily, weekly or other periodic basis. They can also minimize any criticisms of their programs (e.g., attempting to manipulate prices) and they avoid disturbing the markets for their shares.

How Shares Are Acquired

Purchases through brokers is the method of repurchasing utilized by three out of four respondents supplying information on this point. In the case of such market purchases through brokers, SEC guidelines call for the use of only a single broker, and several companies referred to this practice in providing information for this study. Frequency of use of various methods of purchasing stock is tabulated below:

Method	*Number of Times Mentioned*[1]
Purchases through brokers	55
Direct purchases of shares offered by individuals or by holders of large blocks of stock	39
Tender offers	9
Purchases from employees who acquired shares through savings plans	9
Exchange offers	3
Purchases through banks that obtain shares through savings plans	1
Other	3

[1]Multiple responses.

Over 40 companies that provided information on this point use more than one method to reacquire common stock. The most frequent alternative to use of brokers is direct purchase of shares offered by individuals or holders of large blocks of stock.

Tender offers may be somewhat more costly than acquiring shares through a broker purchasing in the open market. However, tender offers provide the company with the offsetting advantage of being able to complete the acquisition of stock within a relatively short span of time, therefore minimizing risks of market fluctuations.

Occasionally, stockholders offer to sell their shares to the company, and many companies appear to be ready to buy whatever shares become available. At times, large blocks of stock become available via this route. In such cases, it is helpful for companies to be immediately aware of such offerings, since they represent a potential overhang on the market which could discourage some investor interest and lead to a decline in the price of the company's shares.

Responsible Executives

As might be expected, financial executives, with a variety of job titles, are generally assigned the responsibility for administering stock repurchasing programs.[3] Treasurer is the title most frequently encountered, with more than half of the survey participants reporting the repurchasing administrator as having a title that includes "treasurer."

The following tabulation summarizes the various job titles reported by participants:

Title		*Number of Mentions*[1]
Treasurer	20	
Vice president and treasurer	19	
Assistant treasurer	7	46
Vice president, finance and/or chief financial officer		16
Chairman or president		3
Secretary		3
All others (mentioned once each)		16

[1]Multiple responses.

Written Guidelines

More than half of the companies supplying information on this subject have prepared some form of written guidelines for their stock repurchasing activities. These guidelines appear in a variety of forms:

—Resolutions of the board of directors;
—Minutes of board committee meetings;
—Letters of authorization and instruction addressed to stockbrokers;
—Statements of financial policy or procedure.

An example of a corporate procedure statement appears in Exhibit 1. Several companies, either in addition to or in lieu of their own written statements, adopt the SEC rules described above (page 9) as their policy guidelines.

[3]For a detailed description of corporate financial executives and their titles, see Patrick J. Davey, *New Patterns in Organizing for Financial Management*. The Conference Board, Report No. 839, 1983.

Exhibit 1: Administrative Procedure—A Major Industrial Company

Subject: Acquisition and Disposition of Treasury Stock

I. General

The purpose of this procedure is to document the various sources and uses of treasury stock, and describe procedures for acquiring and disposing of shares to the extent that Banking and Corporate Finance is responsible.

II. Acquisition of Treasury Stock

Treasury stock is acquired principally from direct purchase, either (1) through a securities dealer in the open market, or (2) from employees under the Company's stock redemption program. A small portion of stock is also acquired through repurchase of shares returned by the Stock Bonus and Employee Stock Ownership Plan Trusts.

III. Disposition of Treasury Stock

Treasury stock is disposed of principally by transfer to (1) Savings and Security and Stock Bonus Trusts, (2) Employee Stock Ownership Plan Trust, or (3) Treasury Operations (Securities Transfer Operation) for Incentive Compensation and Stock Option Plan requirements. Other periodic uses of Treasury stock include corporate acquisitions and bond conversions.

IV. Authority

Authority for acquisitions and dispositions of Company stock for employee plan purposes is established annually by the Board of Directors through adoption of a stock purchasing program as requested in a letter prepared by Corporate Treasury for the Board's Finance Committee. Responsibility for administering the program has been assigned to Corporate Treasury Operation, and attendant authority to contract for open-market purchases is delegated by Board Resolution to the Vice President and Treasurer or Manager-Banking and Corporate Finance.

Any stock to be used for Company acquisitions will be authorized by specific Board Resolution. Any transfer of shares for bond conversions as authorized by the Board of Directors Resolutions dated May 26, 1972 and May 25, 1973 will be approved by the Treasurer and/or the Manager-Foreign Financing.

V. Open-Market Purchases

Purchases on the open market will be made through established securities firms as authorized by the Manager-Banking and Corporate Finance, and will be made in compliance with Securities and Exchange Commission regulations governing stock repurchases (presently Rule 10b-18).

Arrangements with firms will be confirmed in writing concerning daily quantities to be purchased, agreed upon commission rates, daily reporting, delivery of shares to custody, and compliance with SEC regulations. Securities firms will be instructed to deliver all shares on settlement date (five business days following purchase) to [Bank], Custodian. The bank, in turn, will be authorized in writing daily concerning (1) the number of shares to be accepted, (2) the exact dollar amount to pay to the delivering firm and charge to the Treasurer's account, and (3) delivery of shares for registration. These letters will be signed and countersigned by individuals authorized by Board Resolution. Copies will be forwarded to the Manager-Cash Operations (for bank account reconciliation) and to the Manager-Accounting Operations (for ledger maintenance and reconciliation). Confirmation advices received from securities firms will be reviewed by the Secretary to the Manager-Corporate Investment as received to verify that they agree in all respects with information previously given to the bank.

VI. Purchases from Employees under Stock Redemption Program

This program is administered by Employee Savings Operation. Banking and Corporate Finance will be notified of the number of shares redeemed via copies of Employee Savings Operation's transmittal letters to Securities Transfer Operation requesting re-registration and delivery to custody at the bank.

VII. Repurchases from Stock Bonus Trust

Upon acquisition of shares of stock from participants in the Stock Bonus Plan in settlement of vested fractional shares, the Trust will offer to sell the shares to the Company at the closing market price per share on the New York Stock Exchange on the date of sale. The offer will be accepted on behalf of the Company by the Manager-Banking and Corporate Finance. Banking and Corporate Finance will then authorize the Custodian Bank in writing concerning (1) the number of shares to be accepted from the Custodian for the Trust, (2) the exact dollar amount to be paid and charged to the Treasurer's account, and (3) delivery of shares to Securities Transfer Operation where they will be registered in the name of the Company and then returned to the bank for custody. This letter will be signed and countersigned by individuals authorized by Board Resolution. Copies will be forwarded to the Manager-Cash Operations (for bank account reconciliation) and the Manager-Accounting Operations (for ledger maintenance and reconciliation).

Exhibit 1: Administrative Procedure—A Major Industrial Company (continued)

VIII. Repurchases from Employee Stock Ownership Plan Trust

Upon acquisition of shares of stock from participants in the Employee Stock Ownership-Plan in cash settlement of their accounts, the Trust will (1) offer to sell the shares to the Company at the closing market price per share on the New York Stock Exchange on the date of sale and (2) arrange to deliver the shares to Securities Transfer Operation where they will be registered in the name of the Company and forwarded to the bank for custody. The offer will be accepted on behalf of the Company by the Manager-Banking and Corporate Finance in a letter to the Manager-Cash Operations authorizing transfer of funds to the Custodian for the Trust. A copy will be forwarded to the Manager-Accounting Operations for ledger maintenance and reconciliation.

IX. Transfer of Savings and Security, Stock Bonus, and Employee Stock Ownership Plan Trusts

Treasury Operations (Employee Savings Operation) is responsible for administration of these plans. Upon receipt of written requests from Employee Savings Operation, Banking and Corporate Finance will (1) arrange to deliver the requisite number of shares from the custodian to Securities Transfer Operation, (2) issue stock powers authorizing transfer of shares into names designated by Employee Savings Operation, and (3) deliver the re-registered shares into the hands of Trust Investments Operation.

X. Transfers of Shares for Incentive Compensation and Stock-Option Plans

Accounting Services Operation (Personnel Accounting) is responsible for administering these plans. Upon receipt of requests either from Personnel Accounting or Securities Transfer Operation, Banking and Corporate Finance will arrange for (1) delivery of the requisite number of shares from the custodian to Securities Transfer Operation and (2) issuance of necessary stock powers. Securities Transfer Operation will be advised directly by Personnel Accounting concerning re-registration of shares.

XI. Transfer of Shares for Bond Conversions

Foreign Financing is responsible for administering the conversion of these bonds. Upon receipt of requests from that operation, Banking and Corporate Finance will arrange for (1) delivery of the requisite number of shares from the custodian to Securities Transfer Operation and (2) issuance of necessary stock powers.

XII. Record-keeping

Banking and Corporate Finance will maintain a perpetual inventory record of treasury shares. This record will be compared with and reconciled monthly by the Specialist-Corporate Investment to (1) sub-ledger balances maintained by Accounting Operations and (2) custody statements received from the custodian.

Indirect Repurchasing by or for Employee Benefit Funds

This report has thus far concentrated on direct stock-repurchasing activities by companies that buy their shares in the open market for deposit in the company treasury. The purposes of these acquisitions usually do not include the company holding these treasury shares indefinitely; rather, the shares are intended to be disposed of quite soon for some purpose.

Another aspect of common stock repurchasing, however, often involves substantial numbers of company shares, but these shares are never reported on the corporation's balance sheet as treasury stock. Many corporations operate various types of employee benefit funds such as employee stock-ownership programs, and profit-sharing plans. These funds typically operate as separate entities for accounting purposes. The corporate assets that are turned over to these entities are, therefore, segregated from those of the sponsoring company. A common arrangement is for a corporation that sponsors a pension plan, for instance, to engage a fiduciary agency, such as a bank, to act as trustee for the plan. Periodically, the company deposits cash with the trustee, and the trustee then invests it for the benefit of the covered employees. The cash and/or investments do not appear on the sponsoring company's balance sheet but are accounted for only by the custodian.[6]

These benefit funds must, of course, be invested. And

[6]Under accounting rules presently in effect, sponsors of pension plans are required to make a footnote disclosure of the total amount of such assets that have been set aside to meet their pension obligations.

it is common for the trustees and investment managers of these funds to include varying amounts of shares, depending upon the nature of the benefit program, of the sponsoring company among the investments. Such purchases of company shares are of interest in this study because some of the objectives of direct repurchasing (described earlier in this report) may be attained indirectly through the benefit-plan investment activities.

Extent of Purchases by Benefit Funds

Sixty-two companies responded to a Conference Board inquiry concerning the investment by their employee benefit funds in the sponsoring companies' common stock. This inquiry was directed to a different sample of firms from that which supplied the data reported in previous sections.

About half the respondents had acquired the company's common stock during the five-year period, 1978 to 1982, for employee benefit-plan investments. Of the 30 companies that replied affirmatively, 27 reported the numbers of shares that were acquired by their benefit funds during this five-year period. Their aggregates were rather substantial and the purchasing activity was quite steady, as the following tabulation shows:

Year	Aggregate Number of Shares Purchased by 27 Companies
1978	3,640,000
1979	5,586,000
1980	5,051,000
1981	5,804,000
1982	4,304,000

Twenty-two of the responding companies also provided information about the numbers of their own shares in their benefit plan portfolios at each year end. The median number of shares held increased from 1978 to 1982.

Number of Shares Held	Number of Companies 1978	1982
5,000,001 or more	5	5
1,000,001-5,000,000	5	7
750,001-1,000,000	1	2
500,001- 750,000	1	2
250,001- 500,000	3	2
100,001- 250,000	3	2
100,000 or less	4	2
Total Companies	22	22
Total number of shares held by all 22 companies	112,479,000	120,305,000

Types of Benefit Plans

The 30 survey participants that responded affirmatively operate a total of 55 employee benefit plans that invest in varying degrees in the common stock of the sponsoring companies.[1] The various types reported are:

Type	Number of Plans Reported
Employee stock-ownership plans	19
Employee thrift or savings plans	17
Profit-sharing plans	10
Pension plans	5
Other[1]	4
Total Plans	55

[1]Includes dividend reinvestment and share-purchase plan, bonus program, stock-option plan, and monthly investment plan.

Objectives

The companies taking part in this phase of the study repurchase their own stock primarily for purposes that are related to personnel administration goals. Improving employee motivation through ownership interest, retaining valued employees, reducing turnover, and "general corporate purposes" are by far the most important reasons why these firms sponsor such benefit programs as stock-ownership plans, thrift plans, profit-sharing trusts, and pension programs.

For the purposes of this study, however, the objectives that these companies tend to consider secondary are of significant interest because they may confer on the sponsoring companies some of the advantages that are ordinarily associated with direct stock-repurchasing programs, as previously described.

Table 4 summarizes the objectives reported by the 30 companies supplying information on this point. It also shows the participants' ranking of these objectives in terms of their relative importance (1-most important; 2-next in importance; and so on).

Results

Thirty participants report a high or moderate degree of success as a result of the purchase of company stock by their employee benefit programs. Improving motivation, retaining valued employees, and reducing turnover are highly or moderately successful in well over 90 percent of the responses.

[1]It is not within the scope of this report to examine the characteristics of the various benefit plans for which survey respondents have purchased sponsoring companies' common shares. Further information about such programs is found in the following publications: Linda Wintner, *Employee Buyouts: An Alternative to Plant Closings*. The Conference Board, Research Bulletin No. 140, 1983. Mitchell Meyer, *Profile of Employee Benefits: 1981 Edition*. The Conference Board, Report No. 813, 1981.

Table 4: Objectives in Stock Repurchasing for Employee Benefit Plans

Objectives	Total Mentions (Multiple Responses)	Rank 1	2	3	4	5	6	7
		Number of Ratings						
Personnel Relations Objectives:								
Improve employee motivation through ownership interest	25	19	3	2		1		
Retain valued employees	16	3	11	1	1			
Reduce general employee turnover	14		4	9			1	
Financial Management Objectives:								
Improve ratio of debt to stockholders' equity	4	1	1	1		1		
Prevent unwanted takeovers	3		1	1	1			
Increase ratio of stockholders' equity to total assets	4	1					2	1
Improve effective control by present management	2			2				
Increase alternatives available for future capital structure decisions	2				1			1
Recover shares issued for unsatisfactory acquisitions	1	1						
Improve ability to raise capital	1				1			
Other includes perceived as good investment; make money buying stock at low price; a good investment for defined benefit master trust; reduce corporate taxes through a Tax Reform Act Stock Ownership Plan (TRASOP)	5	3			1		1	

Results reported in attaining financial management objectives were not so clear-cut. The results of only three financial management objectives were rated by a sufficient number of companies to have any significance: improving ratio of debt to equity, preventing unwanted takeovers, and increasing ratio of equity to assets. From two-thirds to three-quarters of the respondents rate the results for these objectives as highly or moderately successful.

One-fourth of the respondents reporting results believe that they have enjoyed little or no success in improving the ratio of debt to equity. And one out of three report similarly disappointing results in preventing unwanted takeovers and in increasing the ratio of equity to assets. The most likely explanation for these results is that, in many cases, benefit plans cannot buy enough of a sponsoring company's shares to have much effect in pursuing these objectives. Table 5 summarizes these responses.

Administration

Administration of benefit plans, from the point of view of this study, frequently begins with a board of directors' resolution to allow use of the company's common stock as an investment option in a savings plan or other benefit program. A separate board resolution may be required to allow management to contribute stock to the employee benefit trust up to a specified limit.

Where purchasing of company stock is authorized as an investment of benefit plan assets, more than seven out of ten survey participants make such purchases on a continuing basis. The most common practice is to buy the shares through stockbrokers; but it is not unusual to make such purchases through a bank. The following tabulation summarizes the practices of responding companies in acquiring sponsoring companies' shares for benefit funds:

Method Used to Acquire Shares	Number of Responses[1]
Purchases through brokers	20
Purchases through banks that obtain shares through brokers of their own choice	12
Issuance of new shares by the company	9
Direct purchases of shares offered by individuals or by holders of large blocks of stock	3
Purchases from employees who acquired shares through savings plans or other such programs	3
Purchases by trustee	1

[1]Mutiple responses.

Slightly less than half of the participants have some

Table 5: Achievement of Objectives

Objectives	Degree of Success Reported (Percent of Responses) High	Moderate	Little or None
Personnel Relations Objectives:			
Improve motivation through ownership	32%	64%	4%
Retain valued employees	38	56	6
Reduce turnover	14	79	7
Financial Management Objectives:			
Improve ratio of debt to equity		75	25
Prevent unwanted takeovers	33	33	34
Increase ratio of equity to assets	33	33	34

kind of written guidelines for the acquisition of company stock by benefit plans. The board resolutions noted above are common examples. One company reports that its board of directors makes an annual review of the investment decisions made by or for benefit funds.

In cases where directors' resolutions or policy statements are used, they may (1) refer to SEC rules concerning market purchases, (2) specify who is to carry out or delegate execution of such purchases, (3) provide guidelines regarding pooling of trust funds assets, (4) specify when and to what extent company stock shall be used in investment of assets, and (5) establish general investment standards including types of assets eligible for inclusion in trustee-supervised funds.

R4105-29.31A

Research Bulletin

number 149

International Outlook 1984

The Corporate Perspective

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The Conference Board

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"WHAT A DIFFERENCE a year makes! There is no use pretending that we correctly gauged the early strength of the U.S. economic recovery. What seems even more impressive about this year's return to growth is its 'normalcy.' It really is beginning to look just like the normal recovery, rather than the new breed many of us corporate economists seemed to be expecting last year."

Thus wrote a contributor to the Conference Board's eighth annual survey of economists, planners and analysts in U.S. private industry concerning the economic outlook abroad. As in previous years, the panel members were asked for their assessment of economic prospects in the countries "that are important to your company's foreign operations or on which you normally gather information." The following report is based on the replies received from respondents in twelve major business organizations. Seven of these are among the two hundred largest U.S. industrial corporations as listed by *Fortune;* five are prominent in the communications, financial and transportation sectors.

The difference between the responses given a year ago and those in the present survey was, indeed, striking. Not only was the worldwide economic climate vastly different, with economic recovery under way to varying degrees in all the major industrial countries, but, the panel's discussion focused more than in previous years on the global economic environment—particularly the dominant role played by the United States. In line with this approach, there also was increased discussion of the effect of the strength of the dollar on both economic conditions abroad and the foreign operations of the panelists' own companies.

One further difference from previous years is worth mentioning, for the sake of honest reporting. Several organizations that had contributed to previous surveys declined to do so this year, for a variety of reasons. These ranged from "recent organizational changes" and "reorganizing our short-term forecasting activities" to "staff reductions and commitments in other priority areas." These admissions undoubtedly reflect the lingering effects of the recent recession. Still, they are slightly surprising if one considers that international business has become an increasingly important part of their overall operations for many companies; therefore, one might expect more, rather than less, attention to the economic outlook abroad.

It is also worth stressing that most of the data and the qualitative assessments that were submitted were originally prepared for internal corporate use. Hence, they are merely estimates of the ranges within which certain parameters might fall in the near term or, as one respondent wrote last year, "what we regard as the most likely course" through the company's planning period. In a similar vein, one of this year's panel members commented: "Rather than prepare something especially for you, I think it is more legitimate to send the economic assumptions on which our current plan is being built. These were prepared in June, and it is certainly likely that if I were to go back to the drawing board and rerun my forecasts using the most recent data, there would be lots of changes. Still, I have been in this business a long time and am beginning to learn that the most recent data are often not that helpful. The road through the 1980's may yet be pretty bumpy, so I don't rule out a pretty sharp slowdown despite recent upward revisions."

General Overview

All the forecasts, official and private, being made in the second half of 1983 envisage a more favorable world economic climate than a year earlier. But that does not mean that the outlook is all rosy. Thus, in its midyear economic review, released last July, the Organization for Economic Cooperation and Development (OECD), which encompasses the 24 major industrial countries, noted: "The long-expected recovery now seems to be getting under way. By last December the current and leading indicators were suggesting fairly generally that. . .recovery was finally imminent. And, as the new year unfolded, this was progressively confirmed." But, while the outlook was "most solid for the United States," with a growth rate of "perhaps 4.5 percent" in

Table 1: Official Growth and Inflation Forecast (Percentage changes at annual rates)

	From Previous Year		From Previous Half Year		
	1983	1984	1983 Second Half	1984 First Half	1984 Second Half
Growth Real GNP					
United States	3.0	4.25	6.0	4.50	3.75
Canada	2.0	4.75	4.25	5.0	4.75
Japan	3.25	3.50	3.0	3.50	3.75
France	-0.50	0.50	-1.0	0.75	1.0
Germany	0.50	1.75	1.50	1.75	1.75
Italy	-0.50	2.0	2.25	1.75	2.0
United Kingdom	1.75	2.25	2.50	2.25	2.25
All seven countries	2.0	3.50	4.0	3.25	3.0
Other OECD countries	0.75	2.0	1.75	2.25	2.25
Total OECD	2.0	3.25	3.50	3.25	3.0
GNP Deflators					
United States	5.0	5.0	4.75	5.0	5.25
Canada	6.50	6.0	5.75	6.0	6.25
Japan	1.50	2.25	1.75	2.25	2.50
France	10.0	8.25	9.0	8.25	7.50
Germany	3.50	2.50	3.25	2.25	2.50
Italy	15.50	12.25	13.0	12.0	12.0
United Kingdom	5.75	6.0	5.75	6.25	5.75
All seven countries	5.25	5.0	5.0	5.0	5.25
Other OECD countries	10.0	8.50	9.0	8.50	8.0
Total OECD	6.0	5.50	5.75	5.50	5.75

Source: Organization for Economic Cooperation and Development, *Economic Outlook*, July, 1983

1984, and for Japan, with a possible rate of 3 to 3.5 percent, "Europe remains the most uncertain area: It seems most likely that there will be a slow pickup to modest growth in the 1 to 2 percent range, but this cannot yet be said to be unequivocally under way." These divergent projections are shown in Table 1.

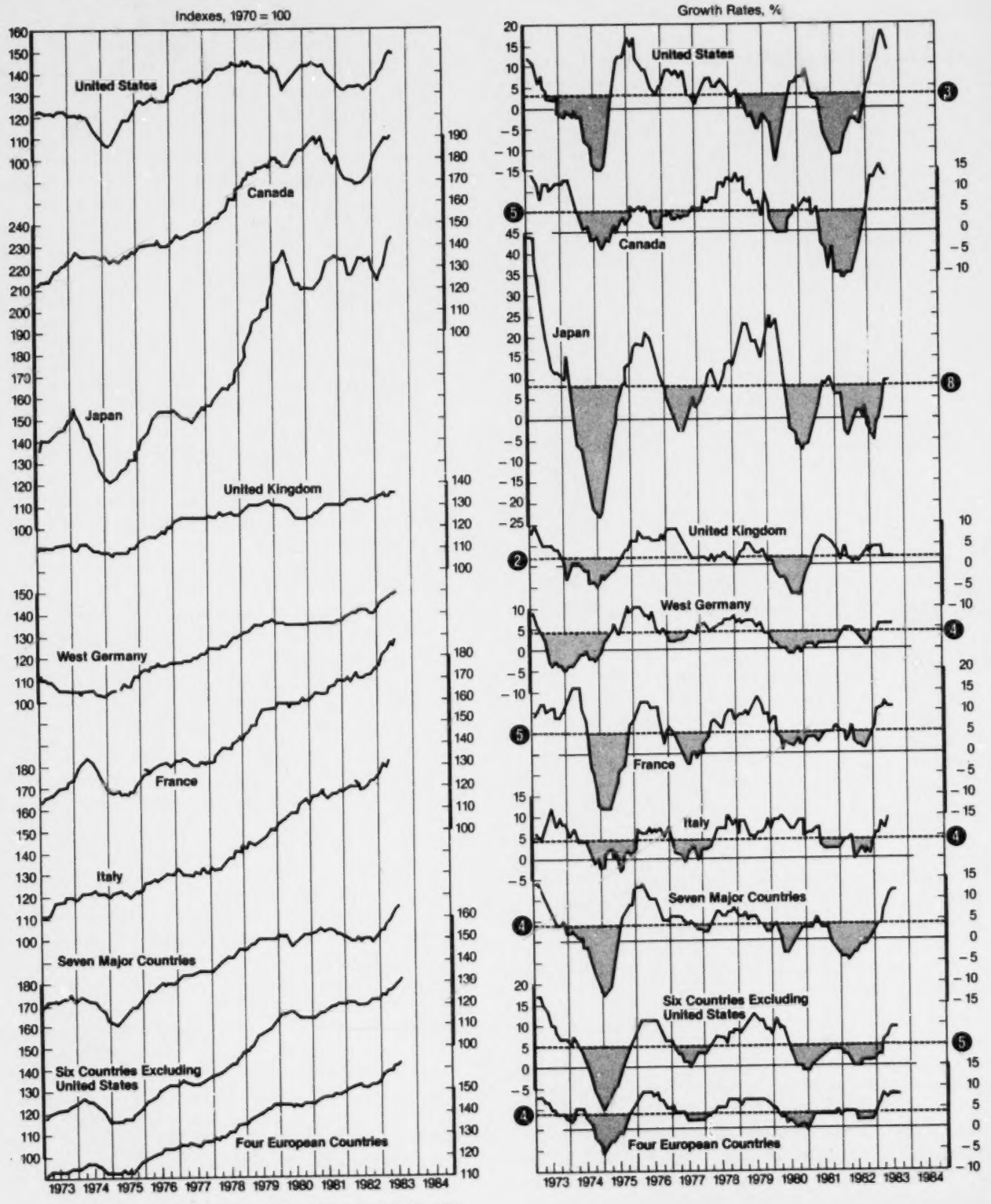
The Conference Board's *International Economic Scoreboard* commented in August in a similar vein that the leading indicators were showing strength in every country except Japan, and that strength in these indexes generally could be considered forerunners of strength in economic performance. By September, this strength was clearly being confirmed, and the *Scoreboard* noted: "The leading indexes for all seven major industrial countries are now on the recovery path. . .For the seven countries as a group the leading index, based on some seventy indicators, registered a growth rate of 12 percent in June. Meanwhile, the indexes of economic performance, which include comprehensive measures of output, real income, employment and sales, seem to be rounding the bend, with the United States and Canada clearly in the vanguard." The leading indexes are shown in Chart 1.

The panel shared this generally optimistic view about the strength of the recovery in the industrial world, although there were some noticeable differences of opinion as to the expected rates of growth in individual countries. Central to virtually every contributor's discussion were developments in the United States (example: "The United States continues to be the world's pivotal economy. Happily for the world, then, all the classic signs of recovery are sprouting here"); the strength of the dollar; and the continuing burden of third-world debt.

One panelist sums it up this way: "Underlying the renewal of growth after the protracted recession has been the general reduction in interest rates and the marked easing of inflation rates. With leading indicators moving upward, business-confidence surveys showing positive results, and the stimulus to global demand emanating from the U.S. recovery, it is reasonable to believe that a sustainable recovery is now under way in the rest of the industrial world. However, under an accumulated burden of structural, fiscal and financial problems, the recovery in most countries is likely to be modest in degree and slow in pace, lacking the vitality of the recovery from the last major recession in 1974-1975."

Another writes: "The strong performance of the U.S. economy in recent months is providing impetus for

Chart 1: Leading Business Cycle Indexes



Source: *International Economic Scoreboard*, The Conference Board, October, 1983

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recovery in other major industrial countries. Recoveries are now under way in Canada, Japan, the United Kingdom and West Germany. And an upturn is assumed to begin later this year in France as well." He adds subsequently: "As in the United States, the most buoyant sectors in these countries are residential construction and consumer durables. In view of the interest-rate sensitivity of these sectors, the industrial economies continue to be vulnerable to swings in monetary policy. A sharp rise in interest rates in the United States or in world financial markets would bring about another downturn in Europe and Canada. The risk of this happening is judged to be about 20 percent, the same as for the United States."

Another concise summary is provided by a third panelist: "We expect 1984 to show a net improvement in the pace of worldwide recovery. However, growth is likely to be below traditional benchmarks. The major industrialized economies (the United States, Canada, Japan and West Germany) should record real growth in the 3 to 5 percent range. The United Kingdom, Spain and France will be on the low end of the growth scale, with real GNP advancing at a rate from 1 to 3 percent. France will be the laggard in Europe."

He also notes that "industrial production will be up, but not dramatically. Once again, the larger industrialized countries, particularly the United States, will be leading the rest of the world. Unemployment is expected to remain high in 1984. The only noticeable drops are projected for the United States, Canada and Australia. In 1984, unemployment in these countries will fall by 1.2 and 1 percent, respectively, from 1983 levels. In most other economies, unemployment will be essentially unchanged. In general, the European economies will have greater difficulty absorbing unemployed workers than will the U.S. economy."

However, there are some hurdles to the unfolding recovery. As another panelist points out: "Foreign exchange rates are out of kilter, causing trade friction and promoting protectionism. Business investment in new plant and equipment will continue to be anemic as corporations use their improved cash flow to strengthen their balance sheets. The high level of unemployment will dilute gains in consumer purchasing power, and the volume of international trade will expand at a modest 2 to 3 percent in 1984—one half the average growth during the 1974 to 1980 period.

"Except for the United States, where a relatively powerful recovery is attracting a hefty volume of imports, sluggish economic conditions will dampen intra-OECD trade flows. Meanwhile, LDC's will trim imports in the face of receding oil revenues or restricted access to new credits, as a result of their overburdened debt positions." Another concludes: "The one setback that neither the industrial nor the developing countries can afford at this stage is another sharp increase in U.S. interest rates that might have an impact on the current fragile recovery."

The Role of the Dollar

The strength of the dollar vis-à-vis other major currencies (shown in Chart 2) plays an important part in virtually all respondents' outlooks for the coming year. "When speculating about the dollar," one panelist writes, "we are talking about a currency which the sheer weight of numbers places in a category by itself. The reasons given to explain the capital inflow continue to range from the desire to protect assets in the United States—in light of political concerns in Central and South America, Hong Kong, and Europe—to the new 'chronic dollar shortage' of debtors scrambling to service dollar debt. They even extend to the mysterious but massive sums involved in the drug trade."

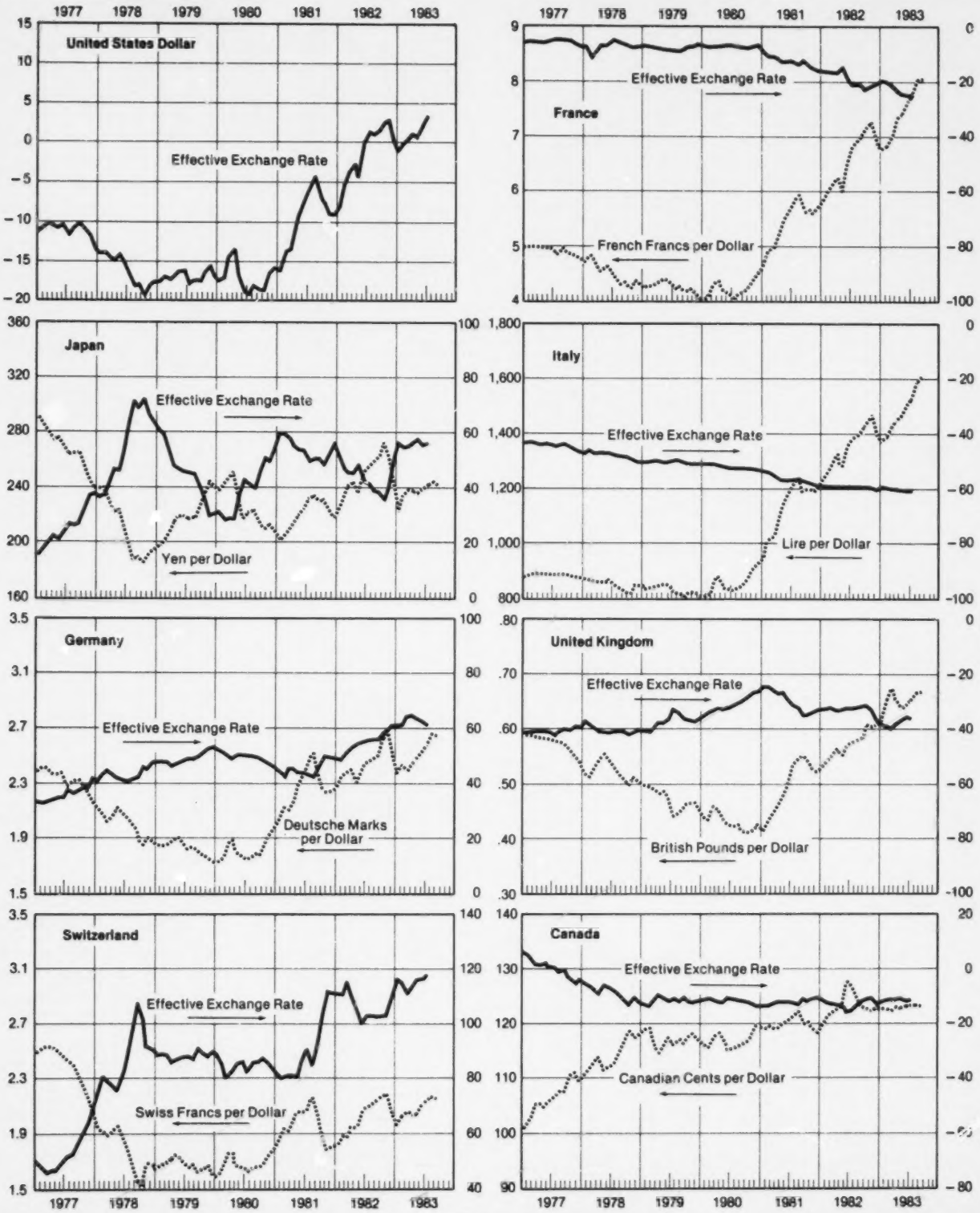
On a somewhat different note, another panelist concludes: "The most important assumption underlying our estimates is the continued strength of the dollar for the remainder of 1983 and into 1984. Although we expect the dollar to remain relatively strong in 1984, we feel that the dollar now may be at, or very near, its peak against other major currencies. The dollar will be supported by the expectation of continued high interest rates resulting from a clash between public and private borrowing. Moreover, the dollar will remain strong because of its role as a haven currency.

"This continued strength. . .has significant ramifications for the world economy. It is likely to moderate the pace of recovery in the United States (through decreased demand for U.S. exports) and thereby help prevent the U.S. economy from overheating. Furthermore, it will attract imports to the United States, thus helping to check the U.S. inflation rate, while providing strength to many of the world's economies and sorely needed foreign exchange to the LDC's."

Writes another: "Insofar as the dollar is concerned, the current trade-weighted value reflects primarily high U.S. interest rates, and the perception of the United States as a safe-haven country. Analysis suggests that sharply rising U.S. trade deficits and anticipated resumed declines in U.S. interest rates will depreciate the dollar about 5 percent a year in 1984, 1985, and 1986." One respondent expects the dollar "at least to maintain its current strength vis-à-vis the 'Socialist' currencies (Spain, France, Italy and Greece), but to lose a little ground against those of Northern Europe."

A final, somewhat offbeat, note is struck by another panel member: "In a floating exchange-rate environment, no currency can remain out of parity for an extended period. Hence, in the current exchange market, the U.S. dollar is rightly valued vis-à-vis other major currencies. The dollar can only be considered strong when compared to the historical rates. The present international value of the dollar reflects fundamental strengths of the U.S. economy, including strong economic leadership, broad-based economic recovery, significant investment opportunities yielding relatively

Chart 2: Foreign Exchange Rates



Effective Exchange Rate for each country indicates changes vis-à-vis a group of 15 major currencies, weighted according to the average bilateral manufactures trade of 1976. Changes are in percent from pre-June 1970 parities, based on monthly averages of daily rates.

Source: Morgan Guaranty Trust

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high returns in a safe environment, and the most favorable attitude toward private business. Within the anticipated recovery pattern of major economies, the U.S. dollar is unlikely to face any devaluation from its current level in 1984."

Respondents whose companies derive a large share—often more than half—of their revenues from outside the United States noted, as one put it, how much companies "were susceptible to foreign-exchange losses when translating foreign earnings into dollars." One panelist (from the transportation sector) remarked that European travel to the United States would be inhibited by the strength of the dollar and that he expected "all of our transatlantic growth to come from the United States."

Major Industrial Countries

The panel's assessment of the outlook for individual foreign countries generally pointed in the same direction, although views differed as to the actual growth and inflation rates foreseen for 1984. Some of these projections are shown in Chart 3, in order to illustrate the range of the "most likely course" anticipated by panel members.

Canada. A former deputy governor of the Bank of Canada noted recently that, paradoxically, Canadians tended to attribute their economic woes of the last decade to the failures of U.S. economic policy and excessive Canadian accommodation to it. He criticized this view, arguing that Canada's general inclination to keep its economy in line with that of the United States had been beneficial, at least in one important respect. Specifically, he said: "It constitutes one of the more effective safeguards. . .from following policies for any length of time that saddle Canada with a significantly higher rate of inflation than that in the United States." Even closer ties with the United States may be in the offing, if recent Canadian proposals for new free-trade agreements (in textiles, clothing and mass-transit rolling stock) should become a reality.

The overwhelming influence of developments in the United States on the Canadian economy was a theme that ran through several comments by the panelists (just as it had, understandably, in previous surveys). One noted: "While Canada's trade balance on manufactured goods improved by more than $7 billion in 1982, fully half of that improvement reflected a shift in U.S. demand back to larger cars, still the major product of Canada's (U.S.-dominated) automobile industry. At the same time, Canada's other foreign markets shrank. A second influence is that of U.S. interest rates. Because the two countries' financial markets are so closely integrated, Canadian short-term rates generally follow those in the United States."

The panel's actual expectations for the Canadian economy in 1984 vary somewhat. Here is a sampling:

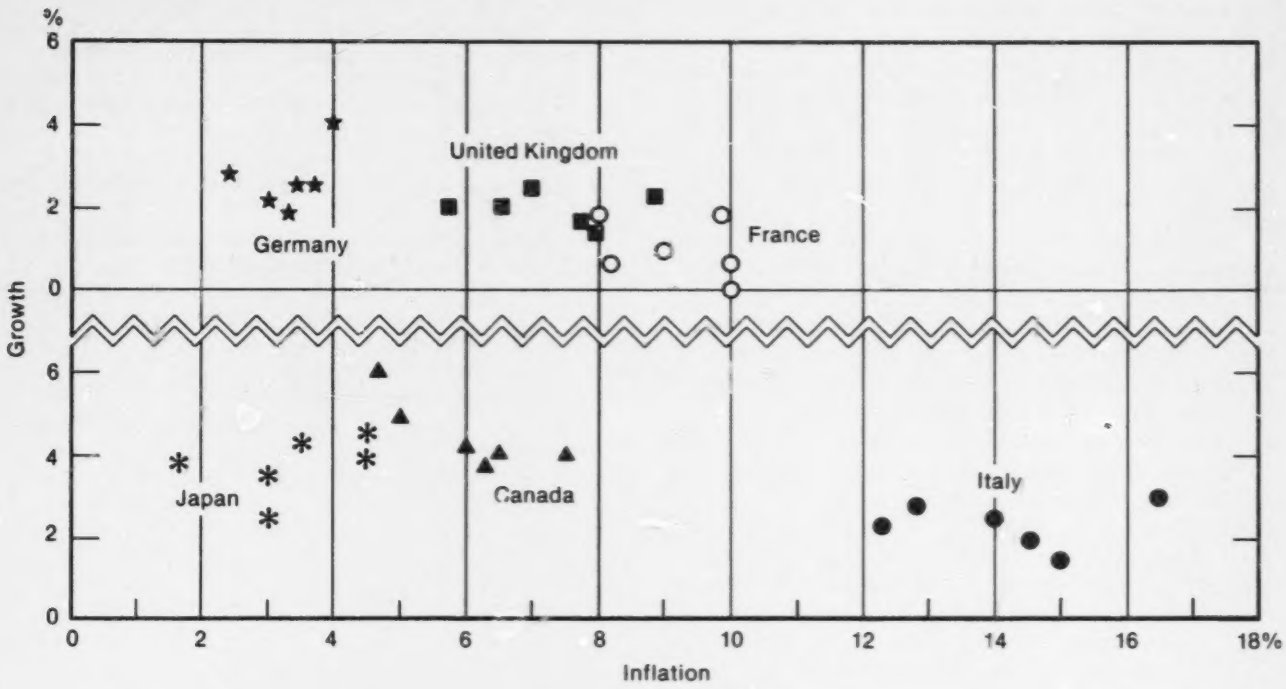
- "The Canadian economy is recovering at a rapid pace, powered in the initial stages by the inventory cycle. Growth in consumption and housing is offsetting declines in business investment this year, but a more balanced recovery is in prospect for 1984 and 1985."
- "There is clearly substantial room for improvement in Canada's economy. Real growth of over 5 percent in 1984, with an inflation rate of less than 5 percent, is expected to result from recovery in the United States (which takes 70 percent of Canadian exports); an upsurge in consumer spending, especially on housing; and a slowdown in inventory liquidation."
- "The recovery promises to be a weak one. Canada's recession was worse than the one in the United States and Prime Minister Trudeau's 'Canadianization' program further discouraged investment. Business spending on new plant and equipment is projected to remain a drag on overall economic activity. Under the scenario of a moderate recovery in the United States, we expect Canada's output to increase by about 4 percent next year. The wage and price control program should help to bring about a continued improvement in inflation next year, at around 6 to 6.5 percent."

Japan. At this juncture, Japan's recovery potential is judged to be somewhat less than during previous upturns, because of both external and internal factors. Exports can no longer be counted on to provide the mainstay for expansion, since they are facing increasing protectionist barriers. Domestic demand is generally expected to remain somewhat sluggish as the government finds its hands tied—in its fiscal policy, by the growing public debt, and in its monetary policy, by the problem of the dollar/yen exchange rate.

These considerations were generally shared by the panel members. "Despite the fact," notes one, "that exports are unlikely to play the leading role in bringing Japan's recovery out of the recession, as was the case in past recoveries, exports once again should contribute importantly to overall economic performance. In addition, no other country benefits as much as Japan from the reduction of oil prices. The stabilization of oil prices at present levels should reduce Japan's oil bill by $7.5 billion per annum. This factor has been incorporated into our forecast of a 4 percent increase in real GNP and a 2 percent inflation rate in the fiscal year ending March, 1984."

In a similar vein, another respondent writes: "Over the longer term, maintaining export-led growth is less feasible, and during the next five years Japan's average economic growth will be slow. This stems from Japan's likely inability to increase productivity as dramatically as in the past, and from a shift in where savings are invested—to housing, transportation and social services. But the slowdown in GNP growth from 5 to 4 percent over the next five years will, of course, be much less

Chart 3: Growth and Inflation in Six Countries, Forecasts for 1984



Observations represent forecasts for growth and inflation rates in 1984 submitted by individual panelists

dramatic than the slowdown from 9 to 5 percent, which took place in the 1970's."

A related comment elaborated on the anticipated slower growth for Japan over the next five to ten years: "An important issue confronting Japan is the aging of its population and labor force. This and other structural changes, including continuing massive trade imbalances and dependence on external sources of energy, could keep the Japanese growth to near 3.5 percent in the 1990's."

A more optimistic view holds that: "Japan is ideally positioned to participate in a U.S.-led recovery, given its product mix and the reputation for the quality of its goods. Moreover, the effect of quotas for several export categories is likely to be muted as Japanese exporters continue to upscale and diversify their products."

On the trade issue, one panelist observes: "It seems somewhat unlikely that the exchange rate for the yen has been manipulated, as has been alleged. Still, there can be little doubt that the Japanese authorities have been able to use the exchange-rate situation to their advantage. Thus, when the yen was weak, they tended to push exports, searching for new markets and cultivating old ones. On the other hand, when the yen was strong, the authorities took the opportunity to build up reserves of raw materials and to expand their foreign investment. At the same time, the flexibility of Japanese prices and companies' ability to reduce their export quotations explain why Japanese exports are relatively insensitive to an appreciation of the yen."

France. On the second anniversary of the French Socialists' election victory last May, a story in *The Wall Street Journal* was headed "France Under Mitterand: Two Years In and Sinking." The article pointed out how President Mitterand initially had set out on a course of social spending, "but within a year it was clear that France was headed for economic chaos. . . .Class struggles and Marxist concepts everywhere permeate newly enacted legislation." At about the same time, *The Economist* headed a piece on France *"Après dirigisme, le déluge."*

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Given this setting, it is understandable that of all the major countries covered by the survey, France easily received the poorest marks. The near-term outlook is summed up succinctly by one panelist, who characterizes it as "fairly lackluster"; while another observes that "current prospects do not look too propitious, especially since the government has taken at least one step backwards and depressed the economy in order to stem foreign-trade deficits and a further depreciation of the franc."

Another respondent cites what he calls France's "negative structural legacy." He notes that checking inflation is much more difficult in a foreign-trade-oriented country with a soft currency, and in an economy where public contracts (in the form of government purchases for hospitals, education and defense) account for some 10 percent of gross domestic product.

Thus, most panelists foresee a 1984 growth rate between 0.6 and 1 percent at best, as "the sharp reversal late in 1982 to a deflationary economic strategy entails a high cost." This cost is substantial: "The entire private sector is burdened by ever-higher taxes and costly social regulations, such as the gradual reduction in working hours without a corresponding reduction in wages or increases in productivity. Aggregate corporate income does not even cover depreciation needs and a large part of industry is near bankruptcy. It is true that some assistance is available for troubled companies in the form of tax rebates, special loans, and interest and export subsidies. But the entire private sector is having its management prerogatives greatly curbed by new labor laws backed by stiff penalties."

All in all, over the next year or two, "the domestic sector will be a drag on the economy and the recovery may be delayed several quarters beyond that of Germany."

Germany. A U.S. financial journalist reported from Germany last Summer that the two most used—and abused—words in Germany at the time were *Wende* and *Aufschwung,* or turnaround and upturn, and that they had "permeated conversation and commentary since Helmut Kohl's coalition government replaced Helmut Schmidt's government in October, 1982."

To judge from The Conference Board's survey, the turnaround has definitively taken place. Overall, the panel sees the outlook for Germany as one of "more substantial growth in 1984," compared to the somewhat "lethargic recovery" of 1983. "The inclination of the new government," notes one respondent, "is to pin the blame for the country's economic climate on the previous one. But the Kohl team is not all that different from Helmut Schmidt's—both have as their key figure the redoubtable economics minister, Graf Lambsdorff."

However, for a country heavily dependent on exports, the somewhat modest pace of recovery throughout most of the world has its negative effects. "Soft markets outside Germany will hamper export growth, as will the country's heavy orientation toward capital goods exports, which will lag considerably in the present cycle. Year-over-year, real GNP will grow by 1 percent in 1983, and by 2.5 percent in 1984 as the export picture brightens."

Next year consumer spending and capital outlays are expected to make the major contributions to the growth of the economy. "Lower interest rates, a fall in the inflation rate, lower oil prices, and the stage of the inventory cycle are positive factors in the outlook. Investment in machinery will grow at about 2.6 percent per year, slightly better than the 2.2 percent increase in real GNP over the next five years."

Over the long run, however, one panelist sees some dark shadows over the German economy. "Germany is falling farther and farther behind in the international race to create new industries based on microelectronics and information technology. Too often the Germans waste their time trying to reinvent the wheel. They have, moreover, an ossified and rigid educational system, with students showing little interest in advanced engineering studies, simply because jobs in those fields carry little prestige. There is just a basic lack of future-oriented thinking and innovation." Another adds: "Unless Germany moves more aggressively into the export of high-technology products, continued growth in its external sector will not be sustainable."

Germany: An Inside View

The German Institute for Economic Research, a private organization based in West Berlin, sees the present recovery continuing in 1984. Although investment in machinery and equipment, which is making a major contribution to this year's economic upturn, will become less buoyant, export demand is expected to strengthen considerably next year.

Reflecting a continued economic revival in the industrial countries, German exports in 1984 may actually expand faster than world trade as a whole. However, even an average export growth rate for the year of about 4 percent would still be markedly lower than the average for the 1970's.

In its *Economic Bulletin* for August 1983, the Institute comments: "Despite this stimulus, there is unlikely to be a sustained improvement in the economy as a whole, mainly because of the consolidation policy which the financial authorities continue to pursue, undeterred by the unimpressive track record of the past few years."

Italy. In a special section on Italy in *The Wall Street Journal* last September, an Italian contributor noted: "Foreign observers of the Italian economy are often misled into either excessive gloom or unwarranted optimism. Perusal of some macrodata. . .usually elicits the first reaction, which may reach extremes. . .Realization that the worst never occurs and crises are successfully overcome may, on the other hand, lead to uncritical confidence in the resilience of the economy and the miracles performed by its productive sector."

And in his new book, *The Europeans*, veteran Italian journalist Luigi Barzini writes: "Italy is universally considered a particularly unpredictable and deceptive country. Some people even believe that this is the only absolutely certain thing about it. They are, of course, right some of the time, but also wrong as often."

The sense of amazement that the Italian economy somehow manages to survive economic crises and frequent changes of government has tinged the responses of the Conference Board's panel for a number of years. One respondent writes: "There remains the somewhat broader question whether, in the long run, Italy can have a sounder economy, a stronger government, and a larger role in international affairs. Italy's economy has not collapsed and somehow manages to cope. Some of Italy's neighbors have, in fact, begun to wonder whether Italy's somewhat chaotic approach to doing things might not be just as effective as their own more planned policy approaches."

Other responses range from somewhat gloomy to slightly optimistic:

- "Our numbers include a downward revision of growth in Italy, reflecting the severity of Italy's structural difficulties. Serious distortions have developed in the nation's fiscal system due to widespread tax avoidance and abuse of social benefit programs. These circumstances have caused the budget deficit to rise to an extraordinary 16.5 percent of gross domestic product this year, accentuating an already serious imbalance between monetary and fiscal policies."

- "A moderate economic recovery is expected to begin in the second half of this year, but real growth for the full year will be down 0.5 percent, followed by close to 3 percent growth in 1984. Financial constraints, coupled with high nominal interest rates, will continue to deter private-sector investment."

- "No growth in real GNP is expected before early 1984. The inflation rate will continue in the 14 to 15 percent range, the highest among the major countries of Europe."

- "Italy's prospects look quite good for the next two to three years. Industrial production is predicted to grow dramatically and there are strong signals of harmony between business and the labor unions. These factors should boost Italy's imports and exports through 1985."

United Kingdom. The United Kingdom has shown the strongest signs of recovery of all the European countries—"both in timing and strength," one panelist notes—with the GNP growth rate for 1984 variously projected at between 1.6 and 2.25 percent. But in the longer run, the country's economic growth may well continue to lag behind the rest of the industrialized world and may not be sufficiently robust to make a dent in the unemployment level. It is estimated that annual growth of at least 2.5 percent or more would be required for a number of years to affect unemployment.

Yet, as *The Times* noted last September: "There are many industrialists and politicians on both right and left who believe that the present upturn is unsustainable without government action to stimulate the economy, because it relies almost entirely on higher consumer spending and a slower rundown of stocks by companies, which will soon lose impetus." Indeed, recently released second-quarter figures seemed to indicate that the recovery already had begun to slow down sharply.

One panelist agrees fully with this longer-range outlook: "The British economy remains greatly troubled despite the probability of respectable economic growth. Even with lowered inflation and a weakened pound, Britain's is a relatively high-cost economy. This explains why the country may be dangerously close to becoming a net importer of manufactured goods. We think some measures will be taken to rebuild the nation's capital structure, but growth will still be below European averages."

Another links investment and export performance: "Manufacturing investment may be picking up slightly, but this is insignificant compared with the very sharp decline in real terms over the last few years. Export growth, already inhibited by the relatively weak recovery outside the United States, is thus supported by rather obsolete equipment."

Even where the rebound in activity in 1983 is acknowledged, danger signals are seen further down the road: "The progress against inflation has been one of the most dramatic in Europe—from an 18 percent increase in consumer prices in 1980 to a current below-5-percent annual rate—but it was achieved at a tremendous cost in terms of unemployment and industrial dislocation. While real GNP is expected to grow by 3.5 percent this year, the generally restrictive policies of the Thatcher government could lead to slower growth in 1984 and 1985." Another panelist concurs: "Margaret Thatcher's recently reelected government is expected to continue tight control over government spending and borrowing. The rate of inflation—sharply reduced during the last few years—is expected to average about 6.5 percent both this year and next."

Table 2: Selected Projections of GNP and Price Changes, 1984, for Smaller Industrial and Major Developing Economies (annual rates, in percent)

	Real GNP	Consumer Prices		Real GNP	Consumer Prices
Argentina	3.0	200.0	Mexico	-1.0	70.0
	4.2	170.0		1.5	80.0
Australia	2.5	6.0	Netherlands	2.0	3.0
	3.1	8.3		2.5	4.0
Belgium	1.5	6.5	Philippines	3.0	12.0
	2.0	8.0		3.0	16.0
Brazil	-3.0	115.0	Singapore	5.5	4.0
	-1.5	130.0		8.0	5.5
Hong Kong	5.0	8.5	Taiwan	5.5	8.0
	5.0	10.0		5.8	3.2
Korea	7.0	7.5	Venezuela	-1.0	25.0
	9.0	16.0		0.0	30.0

Other Countries

This section presents selected comments by panelists on eight additional countries. Projections for these (plus some other) countries are given in Table 2.

"*Argentina's* economy appears to be stabilizing after a protracted recession which saw real gross domestic product (GDP) decline by a cumulative 12 percent over the past three years. With improving agricultural output and increased domestic production for import substitution, real GDP is expected to grow by 1 percent this year. A new government is likely to take over in 1984, introducing stimulative measures, which could lead to some acceleration of growth. Such stimulative measures would preclude much improvement in this year's 280 percent inflation rate."

"*Australia* is in recession, with a decline in real GDP of at least 1 percent expected for 1983. With the drought now ended, government measures to stimulate economic activity and a gradual recovery in exports could lead to growth of 1 percent or better in 1984. The average rate of inflation is expected to continue at 11 percent in 1983, easing only slightly to 10 percent in 1984."

"In *Brazil,* intensified austerity measures related to the refinancing of external debt are expected to result in a decline in real GDP of 4 percent in 1983, and a further decline of 2.5 percent in 1984. Inflation will continue at very high levels through 1984."

"*Hong Kong's* economic outlook will depend over the longer term on the timing and extent of an improvement in world trade and the colony's ability to benefit from it. Movements to diversify Hong Kong's export products and markets will go forward, but the colony will continue to look to textiles and electronics as important sources of export income."

"*Korea's* economy has made a real turnaround from 1980, and its most impressive achievement has been in bringing down inflation. Although a major exporter of certain products such as textiles, steel and footwear, Korea is still small potatoes in such markets as machine tools and other heavy-industry products. Official plans envision gaining market shares in these types of products even in a poor economic climate. Korea undoubtedly will have some success in this program, but not enough to return to GNP growth much in excess of 6 to 6.5 percent annually."

"*Mexico's* economic situation seems to have stabilized somewhat in recent months, although in 1982 the economy declined for the first time since the 1930's. Under the IMF's austerity measures, the domestic economy could remain weak for the next two to three years. The oil reserves remain as a national asset, and oil exports will pay for most of the debt service. In about three years' time, the Mexican economy could become more efficient with a more diversified export base and with growth resuming in the 2 to 4 percent area. Inflation will remain a problem."

"The contraction in *Taiwan's* business activity in 1982 was much sharper than anyone had expected, and it may take a good part of this year to get Taiwan really back on a growth path. As the world economy regains its vitality, this well-managed economy, with its low inflation and solid external finances, will definitely be among the fast-track nations."

"The *Venezuelan* economy is in a recession which will probably continue into 1984. Real GDP is estimated to decline by about 3 percent in 1983, with a further decline of 0.5 percent projected for next year. Inflation has accelerated following devaluation of the bolivar and is expected to average 30 percent in both 1983 and 1984."

12/83 R-1105-29.82/A

Research Bulletin

Labor Outlook, 1984

by Audrey Freedman et al

The Conference Board

number 150

THE CONFERENCE BOARD'S 1984 LABOR OUTLOOK PANEL

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The Conference Board's annual session on the labor outlook took place on November 3, 1983. Panel members discussed the current economic situation, compensation trends, labor relations, and political events. This process provided the predictions for 1984. The individual views quoted were submitted by the participants.

[1]Not present on November 3rd; comments submitted by letter.

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LABOR OUTLOOK, 1984

Meeting in the midst of a strong economic recovery, The Conference Board's Labor Outlook panel was nevertheless sober—and even grave—in evaluating the mid-1980's. The only possible response to current pressures in the economy is far-reaching structural change. All panel members acknowledged this, yet all addressed one or another of the difficulties and hard choices that are now being pressed upon us. In particular, the panel discussed the effects of competition.

Competition has harshly disciplined U.S. management in the 1980's. The result has been discontinuity and discomfort: sharp cost-cutting and efficiency moves; drastic business restructuring, voluntary and involuntary.

Table 1: Forecasts for 1984 by The Conference Board's Labor Outlook Panel

	Median (Percent)	*Range (Percentages)*
Overall increase in average hourly earnings, January, 1984 through December, 1984	5	3 to 6.5
First-year wage and benefit increases in major union contracts	5	3 to 6.5
Increase in labor costs per unit of output in manufacturing	3	-2 to 4
Rate of inflation (average increase in Consumer Price Index)	5	4 to 6
Unemployment average during 1984	8.5	8.4 to 9
First quarter	9	8.8 to 9.1
Second quarter	8.7	8.5 to 9
Third quarter	8.5	8.3 to 9
Fourth quarter	8	8 to 9

The labor-market effects are being felt acutely. In industries where wages had risen (and been bargained) far beyond market levels, cuts in wages and cuts in employment have become essential to survival. Shifts in employment, out of inefficient and uncompetitive manufacturing (and even service) industries are continuing. Although adaptation to a competitive environment is occurring, it is leaving some intractible unemployment and dependency in its wake.

Competition in the labor market is being greatly intensified by the recessions of the early 1980's, and by the structural shift under way. The pressure of millions willing to work for less has undercut the unions' wage advantage, and the strike sanction as well. Unions see their wage power undermined by the nine million unemployed, by uncounted immigrant workers, by worldwide labor supplies available to overseas producers. The only survival strategy for unions is to help their firms get competitive, fast. But this is hard going where the union (and management) tradition has been adversarial; and union-represented employees have been uninvolved in the enterprise.

The recessions of the 1980's have created unemployment levels not reached since the "great depression." The Conference Board Labor Outlook panel expects only moderate improvement here. (See Table 1.) It predicts that wage increases will remain at about the 5 percent level they have currently reached, and that consumer price inflation for 1984 will be about 5 percent.

The panel's predictions for increases in average hourly earnings, negotiated wage changes, and inflation appear to be somewhat higher than 1983 experience to date. However, closer examination of current trends suggests that they are projecting a pause or plateau in each measure—not reignited inflation. The Employment Cost Index rose 5.1% between the third quarters of 1982 and 1983.[1] Average hourly earnings rose 4.1 percent between October, 1982, and October, 1983.[2] A prediction of a 5 percent general wage increase for production workers indicates that the panel does not expect the recovery to excite a wage explosion.

Union-negotiated wage increases have shown a bimodal distribution for two years, making averages less meaningful. For example, the average first-year increase in wages under new contracts negotiated in 1983 has been 1.7 percent (increases weighted by the number of employees covered). However, about 51 percent of the workers covered accepted wage cuts or wage freezes.

[1]Wages and Salaries only. U.S. Bureau of Labor Statistics, *Employment Cost Index*, released November 3, 1983, Table 2.

[2]U.S. Bureau of Labor Statistics, *The Employment Situation, October 1983*, released November 4, 1983, Table B-4.

Among the 49 percent receiving wage increases, the average (mean) was 6.1, and the median was 5.6 percent.[3] The unweighted first-year negotiated wage increase published by The Bureau of National Affairs shows a 4.6 percent rise in 1983; excluding construction, the increase was 5.1 percent.[4]

Some members of the panel appear to expect instances of wage cuts and freezes in 1984, where the struggle for survival is drawn out into the recovery. Yet the overall expected increase of 5 percent suggests that the panel expects moderate wage increases as the result of 1984 recovery bargaining. Again, no one is suggesting a wage explosion—or "catch ups"—to restore the levels or formulas of increase enjoyed by the same unions prior to 1982.

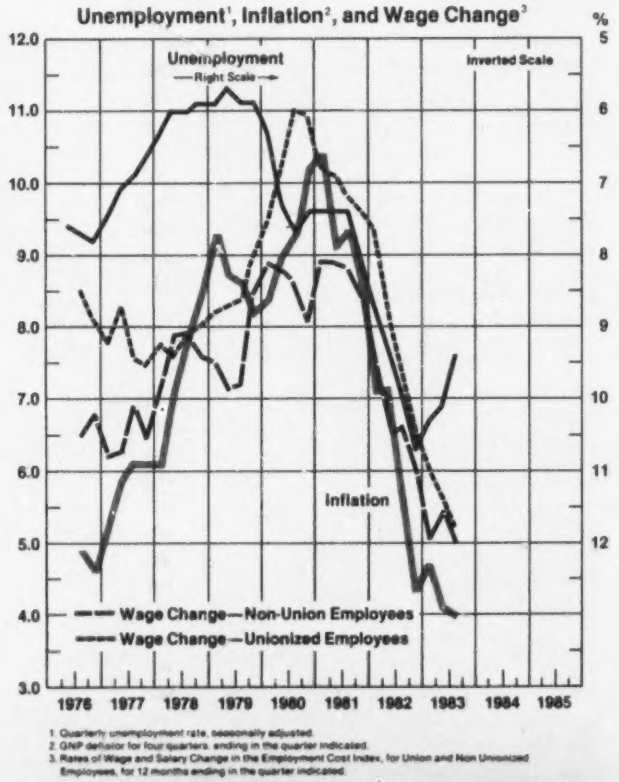
Predicted inflation rates are about the same as those that currently prevail. In the third quarter of 1983, the Consumer Price Index for Urban Wage Earners increased at a 5.2 percent rate. While the September, 1983, index was just 2.7 percent above its year-ago level, panel members felt that the disinflation occurring has not been fully perceived by the public. In any case, they see a 1984 inflation level of 5 percent.

ROBERT NEYLAN
Vice President
Employee Relations
Gould Inc.
Rolling Meadows, Illinois

Robert Neylan explained his wage predictions this way:

> "Labor, like it or not, is a commodity—as supply goes up, its price goes down. Pay budgets for salaried workers and supervisors will probably average 6 percent to 6.5 percent, reflecting continued concern about economic conditions. Opportunities for college graduates, other than those with technical or engineering credentials, will be available at pay levels equivalent to those offered in 1982. Against this background, I would not anticipate movement of facilities to take advantage of surplus labor.
>
> "If the recovery continues into 1984 at the same pace as we have seen in 1983, I would expect wage increases to be higher, but still subject to considerable restraint. The rate of increase will rise only because there won't be many more 'concession bargains.' Pay cuts, in the nonunion sector and among salaried workers, will be few and far between. Inflation will pick up momentum, but only in relative terms. It is hard to imagine a continuation of inflation rates at the 2.9 percent level we enjoyed during the first half of 1983. Some of that low rate was due to falling prices resulting from inventory sell-off and discounting.
>
> "Union bargainers in 1984 are still going to proceed cautiously because of the very real threat of unemployment. The same restraint will apply to nonunion workers. When we talk about recovery in 1984, an unemployment rate of between 8 and 9 percent is still in the background—considerably above the rate at full employment, or the 'natural' rate of unemployment. In addition, business will still have idle capacity, restraining price increases which could result in loss of market share. The hesitation to raise prices will be translated into hesitation about accepting cost increases, including wages, that cannot be recovered. In short, when we talk about recovery we are not anticipating a boom, merely a recovery."

Chart 1



[3]U.S. Bureau of Labor Statistics, *Major Collective Bargaining Settlements in Private Industry*, released October 28, 1983, Table 2.

[4]Bureau of National Affairs, Inc., *Daily Labor Report*, October 28, 1983, #210, p. B-1. This series reports contracts covering 50 or more people; the Bureau of Labor Statistics series includes only contracts covering 1,000 or more people.

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JOHN J. RICHARDSON
Vice President—Industrial Relations
Northrop Corporation
Los Angeles, California

In the midst of recovery, there will still be industries so affected by competition that company survival remains in question. Some companies will be cutting costs to save their lives. John Richardson observed:

"There are certain industries that will not actively participate in the recovery. For example, the airlines, energy, steel, agricultural implements, commercial construction, and trucking industries have been extremely hard-hit by the recession. Their growth will be checked by increased competition stemming from deregulation (airlines, trucking), the flood of lower-price imports resulting from the strong dollar (steel, agricultural implements), and the emergence of very competitive nonunionized companies (steel, airlines, trucking). I think there is very little chance of any payroll growth in many of these industries before the 1984 elections.

"The unemployment rate is high as compared with previous recoveries. As a result, wage growth is being held in check. The combination of labor surplus and high unemployment rates is cutting into labor's unionized and nonunionized, bargaining power. The jobless rate should stay above 8.5 percent through 1984. This high rate in conjunction with moderate productivity growth (3 to 4 percent) will keep a lid on unit labor costs.

"The new rate for 'full employment' will not exceed 93 percent of the labor force. We are seeing an economic recovery derived from a slow, sustained growth in a time of large deficits, high interest rates, and relatively high unemployment."

Don Ephlin described the very weak recovery in industries organized by his union:

"Although there have been some employment gains in the recovery, the UAW is seeing a trickle rather than a flood. In some sectors, this is partly due to outrageous levels of overtime demanded from active workers while millions remain unemployed.

"In the auto industry, blue-collar employment dropped by over 300,000; only a third of those people are back at their jobs. In farm equipment and construction machinery and equipment, the work force has declined 40 percent from its 1979 peak and remains very close to its trough, as very few workers have been called back from layoff. Hourly employment in aerospace is about 20 percent down from its recent peak, and showing no signs of solid recovery.

"I am not particularly optimistic about the near-term employment prospects in any of these UAW industries. All of them depend to a very worrisome extent on the path of interest rates and the course of monetary policy—which, in turn, exert great influence on the value of the dollar. That is clearly the weakest link in the current upturn.

"In the auto industry, the consensus outlook for 1984 is for more improvement in auto sales. However, the auto recovery is looking less robust than a few months ago: The domestic annual sales rate for new cars averaged 7.3 million in the May 21 to July 31 period, but only 6.7 million in the August 1 to October 10 period.

"In the heavy truck, farm and construction equipment industries, sales gains have been spotty. Because of high factory and field inventories, production volume will probably remain depressed well into 1984. Finally, aerospace employment has been clobbered by the downturn in the commercial segment of the industry, while the increase in government purchases for defense has added people to the salaried echelons, but has not yet resulted in many blue-collar jobs."

Each panel member at some time in the proceedings agreed with Ted Marston's statement that "there will be pressures to make this recovery last through all of 1984, because 1984 is an election year." William Winpisinger wrote:

"The recovery can be expected to continue at least until Election Day in November, 1984. The government's ability to regulate the economy through manipulation of interest rates, defense contracts, and so on, is well proven, and this ability to manage the economy will be used in a way that enhances reelection of the incumbents.

WILLIAM W. WINPISINGER
International President
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"The greater numbers of people seeking employment will tend to depress wages (the classic result of supply and demand in the labor market) and, with employers able to draw upon a larger pool of unemployed, more workers without skills will be condemned to continuing and chronic joblessness.

"The continuing and accelerating encroachment of technology into the work place will assuredly push traditional levels of minimum unemployment higher than was considered normal in the 1950's (4 percent) or the 1960's (5 and 6 percent). The economy will be fortunate if the rate of structural unemployment goes no higher than 8 to 9 percent."

Manufacturing employment will not increase in this recovery, according to most panel members. Having reduced their break-even points in order to survive two back-to-back recessions and ever-increasing competition, the "survivors" are not going to revert to inefficient operation now. Moreover, the least efficient capacity—old, high-cost facilities—has been closed permanently. Translating this shift into productivity terms, Robert Neylan said:

"A rapid increase in productivity is typical of recovery, but this recovery has a background unlike any other. All during the 1970's, the reality of foreign competition elicited a response from industry in the form of improved plant, equipment and processes. Efforts at automation and use of the computer as an aid in manufacturing were in progress when recession hit. At the same time, government deregulation policies were implemented. When recession struck in 1981, industry responded with almost unprecedented cost-cutting measures, and the depth of the recession induced concession bargaining, which attacked inefficient practices as well as wages.

"As we come out of the recession, there is a great deal of improved capacity, more efficient than ever, coming on-stream. Prior to and during the recession, the auto industry spent billions of dollars on improved facilities the primary purpose of which was to build cars with less labor and at lower cost. The automakers' profit recovery is as much due to cost cutting as it is to improving sales. In the steel industry, inefficient capacity has been abandoned and the remaining facilities, including the newer mini-mills, are producing at lower unit costs than was possible in the past. Deregulation is changing the dynamics of transportation, as railroads abandon unprofitable spur lines and reap the benefits of changing work rules. The success of Conrail is the result of years of effort, but the payoff is coincident with recovery as more goods are moved through the northeast corridor at lower cost.

"With plants operating at less than 80 percent of capacity nationwide, there is ample room for productivity increases into 1984. Automation is only now coming into its own and its effect on productivity and quality will be apparent throughout the 1980's."

If continued efficiencies are sought in old-line industries just to stay competitive, they will show little or no employment growth in the recovery. The shift of employment away from manufacturing and toward the production of intangibles (services) will continue. Earl Royse observed:

"If the current expansion peaks in 1986, we would look for a civilian unemployment rate of between 7.0 and 7.5 percent at that time. If it peaks later, the rate would be toward the low end of that range, but we don't expect it to go below 7.0 percent in this business cycle. If the economy peaks before 1986, we would expect the rate to be closer to 7.5 percent.

"It is interesting to examine the unemployment rate over the past four business cycles. After the expansion of the 1960's, the rate dropped to about 3.5 percent before the 1970 recession; just before the 1973-1975 recession it stood at about 5 percent; just before the 1980 recession, it was about 6 percent; and unemployment was almost 7.5 percent just before the 1981-1982 recession.

"On the surface, this pattern would lead a pessimist to believe that the next 'bottom' would be something over 8 percent. However, it is often revealing to view the entire period from about mid-1979 through the end of 1982 as one long period of economic 'malaise,' rather than as two recessions and one recovery. Viewed in that context, it seems logical to believe that the current expansion, if it is at all near normal, will drive the unemployment rate below the 7.5 percent we saw at the end of the aborted 1980-1981 'recovery'—*if* this cycle runs its course.

"In the foodservice industry, we are even more interested in what will happen *after* the current business recovery. We believe the unemployment rate will come down even further. Our industry employs a very large number of teenagers. During the 1970's, the population of people aged 15 to 19 grew by about 10.7 percent. The unemployment rate for this age group has recently been well above 20 percent. Over the 1980's, the number of people in this age group will decline by more than 19 percent. This will produce two results: We expect the unemployment rate for this group to be significantly lower in the next business cycle, and this group will carry less weight in determining the overall unemployment rate."

EARL C. ROYSE
Vice President, Human Resources
Saga Corporation
Menlo Park, California

The recovery labor market is looking a bit lopsided, however. Job losses due to recession and to the structural responses to competition have fallen particularly heavily on middle-aged men, many of whom have responded by withdrawing from the labor market. In the recovery to date, employment of middle-aged men has not increased. John Richardson described their situation:

"The unemployment rate for men 55 to 64 years old is usually the lowest of all categories. This is due primarily to their skill, experience and seniority levels in the labor force. However, when those individuals lose a job, they face a bleak future. The skills and experience which have provided their income for the past three decades are simply no longer required; their 'old jobs' no longer exist. The effect of new technology and the drive for efficiency in smokestack industries requires these individuals to develop new skills and abilities and probably to relocate if they plan to reenter the work force.

"The requisite training for these new skills is not available to many of these people. In addition, the fear and apprehension of having to start a new career with skills requiring extensive new training becomes a major hurdle for men in this age bracket.

"Their ability to take early retirement and work part-time in secondary markets is a major factor in allowing them to remain outside the labor force. This is in preference to beginning a job search requiring major investments—either additional training or relocating to another geographical area. For men in this age group, the family network of two or even three generations discourages relocation. Mobility is for the young at heart, not those who have an established socioemotional support structure. The search for a new beginning is not a welcome prospect for older men.

"Finally, the growing number of women in the work force has resulted in an ever-increasing number of two-earner families. In the event of the layoff of one person, a steady income is still coming into the household, relieving some of the pressure to accept employment on less favorable terms."

Don Ephlin added:

"Poor job prospects have caused large numbers of dislocated workers to drop out of the labor market. This includes not only the 'discouraged unemployed,' but also the involuntary early retirees. There are numerous cases where a long-time worker opts for retirement because of the near impossibility of obtaining new employment, even though he or she wants to work, and would stay on the job if it had not been eliminated. Health is often a factor in such cases: The long-service displaced worker may have been able to perform his or her job perfectly well, but when that job is lost, marginal health may force premature disability retirement."

DONALD EPHLIN
Vice President
United Automobile, Aerospace and Agricultural Implement Workers (AFL-CIO)

Robert Neylan observed:

"The growth of the underground economy, together with inaccuracies in the unemployment figures, should also be taken into account. Older men with physical skills are likely to enter unreported occupations, odd jobs and the like, that provide income—sometimes at very attractive levels. Having abandoned efforts to return to their basic occupation, possibly in a closed mill or shop, they find more or less meaningful work. Officially, they are classified as 'not working and not looking.' "

One of the panel members said that, in the United States, "we have never been in a situation where there was no region and/or industrial sector that was expanding and that would absorb the experienced. But we are now!" Ted Marston agreed:

TED MARSTON
Vice President-Personnel
Cummins Engine Company, Inc.
Columbus, Indiana

"Cummins Engine, like many capital equipment companies, will continue to take costs out of the organization, so we see little hope for many of the people now on layoff. A number of people will never be called back to work in the heavy manufacturing (auto, steel, truck, components) sector. In fact, I think we will see a continuation of the down-sizing of the work force that started in 1982. I see no other business sector where growth will begin to take up surplus people."

The unemployed should not be viewed as a stagnant, unchanging pool of individuals, commented one panel member. There is a constant flow into and out of unemployment, into jobs—and into dependence. Undoubtedly, people may be ranked in terms of their probability of becoming employed, using such characteristics as age and experience. And training programs, he added, only rearrange their sequence in line if the total number of jobs is not increased.

Immigration

The subject of immigration restriction, deliberately introduced into earlier *Labor Outlooks* (1981 to 1983), arose spontaneously at this meeting. Even though legislation was stalemated at the time of the meeting, some panel members think that restrictions will eventually be passed that put the burden of border control on employers.

In spite of an increasingly crowded labor market and high unemployment rates in the past several years, the United States is an attractive labor market to immigrants, especially from Mexico and South America. The inflow of most immigrants is "undocumented" and uncounted. Estimates made in the late 1970's placed undocumented immigrants at that time at between 3 and 6 million.

A job is what draws these immigrants to the United States. Thus, there are probably 3 to 6 million more *employed* persons than the 102 million that are officially estimated in the *Current Population Survey*. Among

other things, this suggests that the civilian unemployment rate for October, 1983, might be as low as 8.4 percent, rather than the estimated 8.8 percent of the measured and counted labor force.

The logical place to control "undocumented" immigration is at the point of hiring. And, with high unemployment in the early 1980's, increasing public approval of such controls was foreseeable. Even the Reagan Administration, with its emphasis on decontrol and noninterference with business, has supported legislation to make it an offense to employ undocumented aliens. If the legislation is passed, the issue of immigration into the labor force becomes an enforcement matter. But the numbers of uncounted employees may not change substantially. Incentives to find work in the United States are still strong; employer incentives to hire aliens may be only somewhat diminished.

Wage Negotiations

Competition, both domestic and international, affected union settlements throughout the recession—and now, beyond. Daniel Mitchell, who has kept careful track of concession bargains, said:

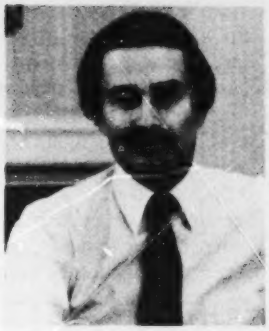
> "I think the thing to watch is not so much what people who bargain do—they will continue doing what they have done. However, the downward trend of unionization may have accelerated during the past few years, so that a smaller fraction of the work force will be covered by bargaining processes in the future. The proportion of workers covered by union contracts in construction, airlines, and other industries will surely be lower."

It was pointed out that as nonunion competitors appear and grow, unionized employers are going to press for work-rule and wage concessions for the sake of survival.

DANIEL J.B. MITCHELL
Director, Institute of Industrial Relations
University of California
Los Angeles, California

David Lewin expects a strong recovery to reduce unemployment and tighten the labor market, lifting wages generally:

> "One should anticipate greater rates of wage increase in 1984 than in 1983. A tightening labor market next year implies more rapidly rising pay and benefits.



DAVID LEWIN
Professor of Business
Graduate School of Business
Columbia University
New York, New York

> "Among the factors that will contribute to compensation increase are (1) a lifting of pay freezes for blue-collar, white-collar, professional and managerial workers in various firms and industries; (2) a more aggressive collective-bargaining stand by unionized workers who know (or will know) about economic recovery and increasing firm profitability; and (3) increasing competition for certain types of occupational specialities that may be in relatively short supply.
>
> "One counterweight to the quickening pace of compensation increases that I predict for 1984 is the 'effective wage adjustments' that will occur as a result of wage and benefit bargains reached in 1982 and 1983. The concession-type bargains that predominated in the last two years or so will have the effect of slowing down rates of compensation increases in 1984 compared to what these rates would be otherwise. But because the total number of workers covered by long-term, deferred or effective pay adjustments is a relatively small portion of the total work force, this 'moderating' effect will clearly be more than offset by higher rates of compensation change for other workers."

Robert Neylan's assessment is that the parties to wage negotiation have not been "reformed" by the advent of heightened competition:

> "Whether pattern bargaining is dead or merely in abeyance goes to the broader question of the future strength of unions. Pattern bargaining obviously is surviving in the auto industry among the Big Three, and the UAW has every intention of forcing it into Nissan and Honda if given the chance. A pattern is definitely evolving in aerospace, based on the Boeing and Lockheed settlements. Patterns, after all, make life easier for everyone and they are easy to explain to the rank and file. In an industry in shambles, like steel, the pattern is in trouble, reflecting the chaotic economic situation of all the players. My basic premise is simply that negotiators, be they company or union, will become innovative only when forced to do so. Patterns are the antithesis of innovation and will return—if ever the economic situation reverts to the world of 1950.
>
> "There is no question that pattern bargaining has suffered a major setback as unions and employers concentrate on issues related to specific operations. Bread-and-butter issues take precedence over politics and philosophy even with unions and bargaining. While I am aware that there have been some variations in traditional bargaining approaches (that is, profit sharing, productivity plans, etc.), they appear

A Survey of Surveys: Salary Plans

	Level of Employee	1983 Salary Increase	1984 Planned Salary Increase
American Compensation Association	Executive	6.9%	6.7%
	Exempt Salaried	6.9	6.7
	Nonexempt Salaried	6.8	6.6
Executive Compensation Service, Inc. A Subsidiary of The Wyatt Company	All Salaried	N.A.	6.8%
A.S. Hansen	Exempt Salaried	7.1%	6.9%
	Nonexempt Salaried	6.9	6.7
Hewitt Associates	Executive	6.6%	6.6%
	Exempt Salaried	6.2	6.3
	Nonexempt Salaried	6.1	6.2
Sibson & Company	Executive	7.0%	6.8%
	Exempt Salaried	6.7	6.6
	Nonexempt Salaried	6.6	6.4

The information shown above requires some clarification. Although an economic recovery seems to be under way, planned salary increases for 1984 are, on the average, slightly lower than actual 1983 increases. There are at least two possible considerations involved. First, while the economic skies have brightened somewhat, there are still industries (for example, steel) that continue to experience hard times, with these difficulties reflected in low (or nonexistent) individual salary increase budgets. Second, the comparatively low rate of inflation at present has given companies an opportunity to escape from the necessity of using the salary-increase program to compensate for high cost-of-living. Thus, corporations are budgeting more conservatively and are able to devote attention to previously neglected internal considerations, such as improving the link between employee performance and pay.

Charles Peck
The Conference Board

to be limited to special situations and are viewed, in my opinion, as a stop-gap alternative to hourly increases.

"General Motors and Ford introduced profit sharing as a trade-off for COLA, and they linked payout to pre-tax profits as a percentage of U.S. sales. Ironically, Chrysler (which pioneered profit sharing among U.S. auto makers) did not follow the lead of GM and Ford, considering the concepts too costly in view of the catch-up increases forced on it. Eastern Airlines introduced its Variable Earnings Plan (VEP) in 1977, for a four-year term, and the plan had mixed reviews from the Machinists' union. In March of this year, the airline was forced to agree to a new contract that would have increased wages by 32 percent over an 18-month period. Portions of that agreement have since been renegotiated but the principle remains: Unions prefer a contract with fixed provisions to a piece of the pie."

In discussing 1984 bargaining, the panel members raised (but did not resolve) the question of whether there were any industries on the calendar (Table 2) where a reduction in wage levels may be forced by growing low-cost competition. There was a general feeling that concessions may still be made in construction. Several members observed also that the unionized supermarket chains are facing competitive pressures and have "just begun" to automate—so wage concessions may continue in that industry.

In this connection, "equality of sacrifice" issues were raised. If managerial pay increases projected for 1984 are in the mid-six-percent range (see box), why are concessions even being discussed? William Winpisinger warned: "do not expect many more concessions except where companies are able to prove dire financial difficulty." And Don Ephlin added:

"Worker's earnings have been taking a beating for a decade: All measures of labor income have dropped substantially during that period. Real family income, for example, is now down to 90 percent of its level ten years ago, in spite of the increase in the number of earners in each family. Among our members in the auto industry, weekly earnings (in July, 1983 dollars) have declined $40 since 1978. Workers are keenly aware of their falling living standards, as well as of the fact that the sacrifice has been unevenly distributed. During the recession, real earnings of executives, administrators and managers rose 6.8 percent, while machine operators and assemblers lost 6.2 percent of their purchasing power, and janitors and laborers lost an even greater 10.5 percent.

"The stage seems set for workers to act to recover those losses if the recovery continues, and as incomes from other sources (i.e., profits) are seen to soar. These efforts to upgrade earnings will be complemented by efforts to achieve greater job security, especially in light of continuing high levels of unemployment."

Table 2: Selected Major Contract Expirations by Industry, 1984

Month of Contract Expiration	*Industry*	*Company*	*Union*
January	Oil	Gulf, ARCO, Mobil, Shell, etc.	Oil, Chemical, and Atomic Workers
	Glass	Corning, PPG (in February)	Glass Workers; Aluminum, Brick and Glass Workers
	Shipbuilding	Litton	Metal Trades Council
February	Supermarkets	Kroger (variously through October), Weingarten	Food and Commercial Workers
	Textiles	Fieldcrest Mills	Clothing and Textile Workers
March*	Hospitals	Kaiser Foundation	Service Employees, Operating Engineers
	Utilities	S. California Gas Company	Utility Workers, Chemical Workers
	Food	General Mills	Grain Millers
April	Supermarkets	Safeway (Texas), Pathmark, Grand Union (New Jersey & New York)	Food and Commercial Workers
	Transportation Equipment	Cummins Engine	Diesel Workers Union
	Hotels	Nevada Resort Association	Hotel Employees and Restaurant Employees
	Cement	General Portland, Ideal Basic, Marquette	Cement Workers
May	Utilities	Houston Lighting & Power	Electrical Workers (IBEW)
	Health Service	Health Employers, Inc.	Minnesota Nurses Association
	Aerospace	McDonnell Douglas	Machinists
June	Shipping	Atlantic & Gulf Coast Companies and Tanker Companies	Maritime Union
		Freightship & Tanker	Seafarers
	Railroads	Class I Railroads	13 Unions, including Locomotive Engineers, Signalmen, Train Dispatchers, Transportation Union, etc.
	Hospitals	New York League of Voluntary	Retail, Wholesale, Department Store Union
	Aerospace	Rockwell International	Auto Workers
July	Government	United States Postal Service	Postal Workers, Letter Carriers, Rural Letter Carriers, Laborers
	Supermarkets	Food Employers Council (Los Angeles)	Food & Commercial Workers
	Longshore	Pacific Maritime Association	International Longshoremen & Warehousemen
August	Communications	General Telephone Company of Florida	Electrical Workers (IBEW)
	Aerospace	Beech Aircraft Company	Machinists
September	Shipbuilding	Bethlehem Steel	Marine & Shipbuilding Workers
	Auto	General Motors	Auto Workers, Electrical Workers (IUE)
		Ford	Auto Workers
	Mining	Bituminous Coal Operators	Mine Workers
	Aerospace	Cessna	Machinists
	Food	Kellogg	Grain Millers
October	Agricultural Machinery	International Harvester	Auto Workers
	Transportation	Mack Trucks	Auto Workers

*Construction contracts expire in the period March through June; paper industry contracts are concentrated in spring and summer.
Source: Daily Labor Report (copyright 1983 by The Bureau of National Affairs, Inc. Washington, D.C.) and U.S. Bureau of Labor Statistics.

Ted Marston expects a return to old bargaining practices, for the most part:

"The unions will not agree to zero increases in 1984. The best that most companies negotiating in 1984 can achieve is to get a 2 percent annual increase and COLA. Many companies will also try to put in profit-sharing plans in order to continue productivity gain. Inventories are low and will stay that way through most of 1984. With the unions pushing for traditional increases, and the companies not wanting production interrupted, I see us moving back to more traditional settlements—which would be inflationary."

Focusing on the auto negotiations, most panel members thought that they would result in a rerun of old bargaining formulas. David Lewin explained:

"I believe that there will not be pay freezes or givebacks resulting from collective bargaining at General Motors and Ford Motor in 1984. The improved profit position of both firms, the improved sales and production positions of the domestic auto industry generally, the recalls of laid-off workers and the reduction of idle plant capacity and equipment utilization all portend positive rates of pay (and, perhaps, benefit) increases under bargaining in 1984.

"The big question marks about auto industry bargaining next year, in my judgment, are the future of profit-sharing and the quality of working life and joint productivity committees. Taken together, these arrangements and structures imply a more 'participative' labor-management approach and policy than has existed heretofore. Will management and labor pull back from such participation now that firm and industry profits have improved? I don't think so. Consider that the investments that the parties have made in these and other forms of participation are very large and are viewed by most insiders as long-term investments. Then, the notion of tying at least a portion of employee compensation to the firm's performance has taken hold and could be overturned only at considerable peril to the leaders on both sides of the bargaining table. Third, the programs of quality of working life improvement and joint productivity initiatives are long-term concepts. It defies the imagination to believe that the parties would jeopardize these because of an improved productivity-profitability picture. So I expect 'participation' to continue in its recently expanded forms.

"However, there may be a higher price to be paid for such participation. One form of this higher price will be wage increases that may be in the 6 to 8 percent range annually. Another form of this price will be more restrictive job-security provisions in which the firms will be *less* free to relocate or transfer employees in cases of work force reductions or shutdowns of particular plants. The UAW members' substantial disenchantment with the job-security provisions negotiated in 1982 virtually ensures that these will be modified in the 1984 negotiations."

Ted Marston also sees a return to the "standard" wage formula in the auto industry:

"In some ways, the Ford and GM settlements will be similar to what we have seen in the past. There will be the 3 percent productivity increase, and they will stay with the present COLA formula. There will be little change in benefits coverage. There could be a major change in pay systems. Ford or GM might just try to withdraw significant variable pay schemes that pay employees on the basis of how well the company does. The other nontraditional area that may be addressed is management-union cooperation. It is possible that either Ford or GM might be willing to share some of their management power in order to get full participation from their employees."

In some contrast to this is the assessment of Don Ephlin:

"The 1984 bargaining in the auto industry will be very, very difficult because we are still confronted by serious competitive problems, both from foreign imports and from lower-priced U.S. component manufacturers, many of whom are organized. On the other hand, General Motors and, to a lesser extent, Ford will be reporting relatively large profits for 1983. In my judgment, the preferred outcome would be to maintain a pattern-bargaining relationship between GM and Ford; continue those programs initiated in 1982 to improve job security, control outsourcing, and increase employee involvement.

"The economic improvements in the agreement can be influenced a great deal by the approach taken by the parties on profit sharing as a way to give employees their share of large profits. The alternative course of action would be a return to the 'good old days' approach, which really wasn't so good.

"In my opinion, the use of profit sharing as an instrument of collective bargaining should be expanded, particularly in those industries where pattern bargaining has been the normal approach. In this way, wage and benefit costs can be equal for all producers, thereby eliminating them as competitive factors in building and pricing a product. On the other hand, those employees in the more successful companies (e.g., General Motors) should not be penalized and forced to accept less than their fair share because of the needs of some less competitive companies. Therefore, profit sharing seems an ideal mechanism for workers to share in the wealth that they create without distorting the competitive stiuation within an industry."

Labor-market competition will affect bargaining, it was predicted in the panel meeting, even during the recovery. Companies will be attempting to cut labor costs by hiring more part-time employees and more temporary employees. They will press for two-tier pay systems in which new hires (or rehires) come on the payroll at far lower pay rates. And, finally, an abundant supply of labor makes it more possible than ever before to operate during a strike. This possibility constrains union demands. Moreover, the additional risk that the company may emerge without a union-represented work force is also a constraint on union leaders in the mid-1980's.

Unions represent a smaller and smaller part of the work force; and it seems that the most innovative management practices develop in nonunion settings. Don

Ephlin noted that there are "nonunion firms" and "unorganized firms." The nonunion companies are very well run; involved, fairly treated employees participate in relatively "open" management. The unorganized companies are not well managed, and their employees could be unionized by an appealing labor movement. Ted Marston, whose firm is partly nonunion and partly unionized, said:

> "We have learned in the past few years, that it is in our best interest to have employees contribute ideas that affect their work and to get their ideas on how to improve productivity in the work place. This happens if both parties are willing to give up some of the more traditional adversary ways of dealing with one another. The trend is there, and many companies and unions will take a shot at much more cooperative relationships in their next round of negotiations. I am not very optimistic about their success unless companies are willing to share some of their power with the work force, and the union leaders can get their members to understand the potential for both parties in a cooperative effort."

The Bankruptcy Tactic

In 1983, there have been several attempts by large companies to break out of a high-wage contract by declaring bankruptcy, then announcing new pay scales. Earl Royse said:

> "The resort to bankruptcy by troubled companies is unlikely to spread. It is not only a last resort, but an admission of failure by management—and no one looks forward to failing. There are many options available short of that final choice. For example, we can look at the recent offer of Western Airlines to give up approximately one-quarter of its stock to employees in return for financial relief in the area of labor costs. Such offers are not new and are not always accepted, but they seem to be far more preferable than economic death. Some people would point out that reincarnation has followed such death on occasion, but the federal bankruptcy courts will probably not allow a bankrupt company, in the absence of unusual circumstances, to avoid its financial obligations completely—only to return in another guise. All the firms recently resorting to bankruptcy have histories of severe losses. We may see a few more of these, but not many."

Robert Neylan agrees:

> "To suggest that bankruptcy is going to spread as a strategem for avoiding labor contracts ignores the realities of the process. To go into bankruptcy is a traumatic experience for the company, its employees, suppliers and creditors. Not many companies are going to embark on that course if there is any alternative."

However, Daniel Mitchell feels that the bankruptcy route is a serious threat:

> "Undoubtedly, the bankruptcy route will be tried. Until its legal implications are clear, there will be those willing to take a chance.
>
> "There are serious legal doubts about the bankruptcy strategy. In the Continental Airlines case, the Railway Labor Act may ultimately provide a costly forum for litigation.
>
> "If it appears that management can terminate contracts at will (but unions cannot), unions will be reluctant to sign long-term contracts. The U.S. labor-relations system has been based on legally enforceable long-term contracts. This came about largely at the behest of management. Management wanted fixed periods of guaranteed industrial peace—no-strike pledges in exchange for recognition, a contract, and grievance or arbitration to settle disputes during the contract's life.
>
> "The U.S. management community needs to think about the implications of a situation in which only short-term contracts—good until someone makes a demand—prevail. Does management really want to abandon grievance and arbitration procedures and settle minor disputes with quickie strikes?"

Health-care Cost Containment

A portion of the paycheck of most U.S. employees is "indexed" to the cost of hospital and physician services—health-care coverage. Earl Royse thinks that containing health-care costs is a priority issue:

> "The fact that health-care expenditures have now reached an alarming 10.9 percent of gross national product has already started a struggle over who should bear the burden. Most of the action suggested to address this issue appears to be cost shifting—from employers to employees—which is really not the answer. The strategy must become cost containment through actions like plan redesign, incentives to remain well, consumer resistance to 'health at any price,' ad hoc local business coalitions, preferred-provider organizations (PPO's), health-maintenance organizations (HMO's), and *charging actual users of medical services, rather than spreading the costs over a wide employee base.* (Emphasis added.)
>
> "There has already been significant legislation to address this issue. In the past year, two major pieces of legislation were passed which will directly affect the health-care delivery system in the United States. The first was the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), an attempt by the Reagan administration to reduce the budget deficit by reducing spending. The second was the Social Security Amendments of 1983, which represent an effort to save the Social Security System from default by limiting expenditures.
>
> "The net result of these two laws has been to impose a cap on growth of hospital expenditures and to enforce reimbursement guidelines based on Diagnostic Related Groups (DRG's). These guidelines, developed by the Health Care Financing Administration, will limit reimbursement by the government for specified health care services.
>
> "These cost limits and guidelines currently apply only to inpatient hospital care. However, HCFA has been given the responsibility to develop further guidelines which would apply to other sources of health care including outpatient services, physicians' services, home health care, and skilled

nursing care. Hospitals that are stepping up use of these services as a means of cutting inpatient costs and generating revenues will be most severely affected when the guidelines are extended to these services.

"Other health-care legislation proposed by the Reagan Administration would effectively shift more of the burden of health-care costs to the employer and the consumer. These proposals include a limit to tax-free contributions to employee health plans, a voucher system that would allow Medicare eligibles to purchase insurance coverage from commercial providers, and an increase in co-payments for Medicare beneficiaries during the early stages of hospitalization.

"We believe the health-care industry itself must bear the burden of containing the cost of health services and should be held accountable to do so. It seems to us that doctors have a significant opportunity to help. While they only receive 19 percent of the dollars for health services, they control approximately 80 percent of the costs."

Don Ephlin observed that unions know that rising employer-paid premiums sponge up potential pay increases. For this reason, unions are in favor of health-care cost containment. However, management has never been eager to advocate controlling professional medical charges, perhaps because of the social ties among doctors and executives. Mr. Ephlin added:

"Management efforts to extract concessions aimed at reducing employer costs for health-care benefits have been a (or *the*) critical issue in a number of important UAW strikes of recent years, including those against General Motors (1970), Ford (1976), and Caterpillar (1982). The health-care-cost issue also contributed immeasurably to the difficulties Chrysler and UAW had in reaching (and having ratified) settlements in 1982 and again in 1983.

"These confrontations reflect a consensus in the mainstream of the labor movement to fight off cutbacks in health-care benefits achieved over many years and almost always with great difficulty. Defending existing benefits, however, is clearly a sobering exercise when, as we have found in UAW, the cost of our health-care benefits doubles every five years and crowds wages and other potential benefit gains for attention.

"The simple truth is that stabilizing government's or employers' health-insurance outlays, while the public at large is placed at increasing personal risk, is nothing more than cost shifting. The labor mainstream has rejected the 'punish the consumer' approach of the Reagan Administration, and is actively supporting legislative initiatives that would:

- include all payers of health-care services to prevent cost shifting or unjustifiable payment differentials among various payers;
- place immediate 'caps' on hospital revenues, physician-fee increases, and other service charges during an initial startup period; and
- look to the states to develop their own cost-control programs, based on prospective budgets and negotiated payments for hospitals, doctors, and other health care providers."

John Richardson offered a careful description of the "uncontrols" built into health care, and concluded:

"I believe that unions will not forfeit gains in health care to any appreciable extent. As a matter of fact, the increasing cost of a cherished benefit makes protection that much more important because the loss of significant protection is a threat that most families cannot handle emotionally. This is not to say that there will not be cooperation in trying to find ways to use health dollars more efficiently. I believe that there will be, particularly as the ratio between pay and benefits in the compensation package continues to change. If the basic cost-of-living index stays relatively reasonable, and health care continues to rise disproportionately, the result may be *increased resistance* to giving up medical protection. As it becomes a larger portion of the compensation package, any loss or reduction will represent a larger economic threat.

"Despite the expected public and union positions, most employers will seek a way to reduce their health-care cost liability. In my opinion, employees will be more amenable to cost sharing than they will be to reductions in health-care coverage. Therefore, some employers may succeed in shifting some of the cost to employees; however, my personal feeling is that the cost will be minimal. Where it does occur, it may have the positive effect of decreasing utilization or causing more effective utilization. However, it could have the negative effect of increasing fraud and cheating (for example, through collusion with providers, or withholding coordination-of-benefits information). Acceptable employer alternatives to plan design changes could include encouraging utilization of HMO's; installation of flexible benefit or cafeteria plans; utilization of salary reduction plans; or getting used to the idea that health care will represent an increasing segment of compensation and may require modification of salary-increase programs in order to recognize the changing ratio.

"In view of all this, assuming there is some validity to the expressed concepts, it is difficult to postulate anything other than the continuing public demand for an easily accessible health system with little (or no) accompanying financial pain."

All panelists agreed that some combinations of small steps could be taken to reduce health-cost increases somewhat, and that these would meet with little employee or union resistance. Among these were:

- voluntary second opinion prior to surgery
- preferred provider organization (where employees are represented, with union involvement)
- incentives for accepting ambulatory instead of in-hospital care
- reduction of duplicate coverage and coordination of benefits
- sickness prevention programs

There is less acceptance of cost sharing (on premiums and by increasing deductibles) because these are seen as clear shifting—not reduction—of costs.

Industrial Policy

Proposals for government intervention in the economy that are likely to figure in the 1984 Presidential campaign have been gathered under the slogan "industrial policy." Panel members commented on the political discussion to date. Earl Royse said:

> "In the coming year, we will probably hear more concerning the need for an 'industrial policy' to provide trade protection, subsidies, capital allocation, regulation or deregulation, and tax breaks. The pressure will probably continue to come, however, more in the form of 'special interest' advocacy than as a unitary policy with broad common support. For example, pleas are already being heard from the airline unions for reregulation of that industry. Many industries facing strong foreign competition, from Japan in particular, can make a strong case for specific trade quotas if the reactions and dislocations are ignored. The concept of capital allocation goes to the very heart of the free market system, and would seem to be unworkable.
>
> "In general terms, relaxation of regulation is a good thing, although certainly some controls are necessary. The consumer should dictate capital allocation, business policy, or change of any kind. That is not only a basic business theorem but, within limits, a sound economic policy. The idea is facing the acid test in the airline industry today. And, at this point, the consumer is undoubtedly a beneficiary.
>
> "The 'others get it' argument is a hard one to resist. But that is the danger of attempting to go only a few steps of the way along the path to a controlled economy. Where do you stop? The 'others do it' argument is hard to answer. At what point does enterprise or industry survival outweigh the detriments of government dictation? There would seem to be some point where, for each of our major manufacturing industries, we would not let foreign competition walk all over us just because of their own governments' industrial policies."

Daniel Mitchell is an advocate of planning, and argues this way:

> "I don't think miracles can be expected from 'industrial policy,' economic planning, or whatever you want to call it. The arguments against it (i.e., that special interests will obtain gains from the rest of us from government interventions) have a point.
>
> There is another side to industrial policy, however, and that is social consensus making. It would be a good thing if labor and management and whoever else got together and were given a hard look at economic policy options in an organized framework. If what came out of that exercise was some microlevel responses to macrolevel problems (incomes policy, gain-sharing wage determination, and so on), I would be willing to pay a price to get it.
>
> "Industrial policy could involve something like the following:
>
> (1) Industry councils (labor, management) are given an economic projection of their industry—trends, competition, and so on. Problems over the next decade are discussed.
>
> (2) *If* the industry can reach a consensus concerning what economic assistance it would like, it submits the proposal to a review authority.
>
> (3) The review authority comes back and tells the industry what the price of the assistance will be in terms of what the review authority wants in return. In general, the review authority would insist on adherence to macro objectives, plans to restore competitiveness within a fixed period, gain-sharing systems of wage adjustment, progress reports with cutoffs of aid if deviations occur, and so on, and its suggestions for improving the plan.
>
> (4) In reviewing plans, the review authority would give opportunity for comment to interested parties including suppliers and customers. While the reviewing authority might have some discretionary authority to provide aid, in general, plans would have to be approved by Congress to the extent they involved tax law, antitrust, and such. This means that Congress would probably not be receptive to legislation that attempted to circumvent the reviewing machinery. An industry coming in with a bill for, say, trade protection—but without reviewing authority endorsement—might not find a receptive climate."

Don Ephlin offered, from UAW congressional testimony, a full industrial policy statement. An excerpt follows:

> "There needs to be a National Strategic Planning Board, in the Executive Branch, led by a multipartite executive committee assisted by a permanent staff of outstanding technical personnel. It should coordinate and provide overall direction to (a) various sectoral committees charged with developing strategies for specific industries; (b) a National Strategic Development Bank empowered to make long-term loans to, or take equity in, companies undergoing Board-certified restructuring; and (c) a National Civilian Technology Administration that could make grants and provide technical assistance to firms getting started in new growth areas of the economy.
>
> "In order to lead the nation's industrial policy efforts, the Board must be able to coordinate the demands of the different sectoral and regional plans forwarded to it by industry strategy committees. For that, it needs a detailed picture of how industries fit together in the economy: how much of steel's output goes to auto, what share of semiconductor shipments are for the machine tool industry, etc. To draw this picture, the Board needs to emphasize input-output analysis.
>
> "Second, the Board needs to bring itself up to speed on specific industries and companies. Some useful firm- and industry-level data are today only in the hands of private business. Gaining access to such data, in ways that protect its proprietary status, is essential if the Board and the industry committees are to devise sensible, consistent sectoral plans.
>
> "Part of competent industrial policy is cost-effectiveness. When all costs are enumerated, this test will often favor the reuse of existing resources over their duplication elsewhere. It is therefore critical that the Board be able to assess which facilities are most convertible to the production of alternative product lines, to identify which such alternatives are

most promising, and to devise protections for dislocated workers. Thus there should be established, within the Board, a Bureau of Conversion Assistance that could use conversion to avert plant closings and to reopen previously closed facilities."

Reacting to the "tripartite council" (management, labor, government) proposals of some public figures, Robert Neylan said:

"The proposal takes a simplistic approach to a complex problem and is founded on some assumptions that are, at best, questionable. It assumes, for example, that 'the problems of our smokestack industries' are not already well on the way toward being solved. Some of us may not like the solution, but there certainly seems to be one on the way: Inefficient capacity is being shut down, more efficient capacities will serve the markets in which they can survive; and foreign competition will get what is left.

"It seems to me that all the rhetoric surrounding 'industrial policy' is aimed at turning back the clock, and it comes 20 years too late. This is not Switzerland or Lichtenstein where you can put all the decision makers in one room and keep them there until they come up with an 'industrial modernization agreement.' When we speak about labor representation, who is going into the room? Representatives of 20.9 percent of the work force? Management would perhaps be represented by at least some of the automakers. They started in 1960 with a virtual monopoly in the world's largest car market and look what they have done with it in 20 short years!

"The true value of goods and services is determined in the marketplace. This process is going on all the time in our economy. U.S. Steel buys Marathon Oil and implicitly concedes some portion of the steel market to someone else, probably a foreign producer. Its judgment is that steel is not a business in which additional investment would be productive. General Motors is doing the same thing somewhat differently by combining with Toyota to produce small cars in California. GM has spent billions to modernize plants, millions on retraining; and its judgment is that Toyota has expertise worthy of the venture.

"Should labor agree to tie its wages to productivity as part of some overa' social compact? I don't think so. If management is free to direct capital where it will, then labor should be free to get all it can. No, to me the industrial policy proposal is a blueprint for a level of regulation far in excess of anything we have ever had except in wartime. And our experiences with controls, even in wartime, have been something less than satisfactory."

However, Neylan does favor some ad hoc government assistance, and some negotiated trade restraints:

"I do not believe that we can maintain our national standard of living solely on the basis of high tech and service. We need basic industry (steel, auto, rubber, and so on) as the foundation for our economic system. We have to recognize that the basic industries will not resemble those of the past. They will be smaller, employ fewer people, and will concentrate on producing those goods that others cannot produce.

"The growing discussion of industrial policy is really a challenge to the private sector. Government should do only what the private market cannot do. The demands for retooling, rebuilding and reeducation cannot be left wholly to the private sector. It simply will not have the resources. The government should intervene to avoid catastrophe. Chrysler and Lockheed are examples, but the private sector must be prepared to take its share of the risk. This is a far cry from what many proposals suggest. The notion that one central agency can catalog our failings and devise solutions is doomed to failure. Our society is too complex and too loosely knit to submit to a central plan."

The panel discussants agreed that structural change in the economy is moving rapidly and is unsettling to all. Perhaps the reason for the current "industrial policy" proposals is that we cannot cope with competition, much as we call it the "American way." Thus a vague collection of government aid proposals can attract adherents, each in hope of gaining power to quell the competitor. David Lewin commented:

"Recall the ballyhoo about economic planning that developed during the 1974-1976 recession, which died out as soon as recovery set in. I believe that as the present recovery continues and picks up steam, most of the breast-beating about industrial policy will also die away. And what remains will typically be a catchphrase for those firms and industries that are seeking protection from one or another competitor or market force."

A summary statement of the day's discussion would have to stress the effect that competition is having, especially on the efficient management of our labor resource. Ted Marston made this statement:

"The major issue facing companies like Cummins and their unionized work forces is how to stay competitive in worldwide markets. Our willingness to work together in the next three to five years to accomplish this objective will determine how long we will be around. We must learn how to increase our productivity, become more efficient, improve our quality, and lower our costs. We can't do it without a cooperative effort from all of our employees.

"It is possible that an 'industrial policy' addressing protection, subsidy, and so on, will only deter us from dealing with the real problem ourselves. For the past decade we have been able to pass on all of our mismanagement and ineffectiveness to our customers. Both management and the unions have been responsible for this situation and it is our responsibility to work together to correct it. I would like to see more interest from the public sector in the cooperative efforts being started by many companies across the country. Long term, the pressure to become productive and competitive through our own efforts will make us a much stronger company. We cannot count on the government to save us from our inability to manage."